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KOREA  
  
STAFF APPRAISAL REPORT  
  
ON THE  
  
SMALL AND MEDIUM INDUSTRY BANK

May 10, 1979

East Asia and Pacific Projects Department  
Industrial Development and Finance Division

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### CURRENCY EQUIVALENTS

US\$1.00	=	W 485
W 1	=	US\$0.0021
W 1 million	=	US\$2,062
W 1 billion	=	US\$2.06 million

### ABBREVIATIONS

ADB	-	Asian Development Bank
BOK	-	Bank of Korea
CNB	-	Citizens National Bank
EPB	-	Economic Planning Board
ERR	-	Economic Rate of Return
ESD	-	Extension Services Department (of SMIB)
FLD	-	Foreign Loan Department (of SMIB)
FRR	-	Financial Rate of Return
GOK	-	Government of Korea
ILO	-	International Labour Organization
IRF	-	Industrial Rationalization Fund
KDB	-	Korea Development Bank
KDFC	-	Korea Development Finance Corporation
KDLC	-	Korea Development Leasing Corporation
KFX	-	Korea Foreign Exchange
KIST	-	Korea Institute of Science and Technology
KFSB	-	Korea Federation of Small Business
KOSTIC	-	Korea Science and Technology Information Centre
KfW	-	Kreditanstalt für Wiederaufbau
MCI	-	Ministry of Commerce and Industry
MOF	-	Ministry of Finance
NIF	-	National Investment Fund
OECF	-	Overseas Economic Cooperation Fund
RSD	-	Research and Statistics Department (of SMIB)
SMI	-	Small and Medium Industries
SMIB	-	Small and Medium Industry Bank
SMIPF	-	Small and Medium Industry Promotion Fund
UNDP	-	United Nations Development Programme
USAID	-	United States Agency for International Development

### FISCAL YEAR

January 1-December 31

KOREATHE SMALL AND MEDIUM INDUSTRY BANKTable of Contents

	<u>Page No.</u>
BASIC DATA	
1. <u>THE INDUSTRIAL SECTOR</u> . . . . .	1
Contribution to the Economy . . . . .	1
Structure of Industry . . . . .	2
Geographic Distribution . . . . .	3
Financial Structure of Enterprises . . . . .	4
Trends in Industrial Investment . . . . .	4
Industrial Policies . . . . .	4
Prospects . . . . .	6
2. <u>THE SMALL AND MEDIUM INDUSTRIAL SECTOR</u> . . . . .	8
Definition . . . . .	8
Role of SMI in the Korean Economy . . . . .	9
Industrial Structure of SMI . . . . .	9
Regional Distribution of SMI . . . . .	10
Financing of SMI . . . . .	11
Nonfinancial Assistance to SMI . . . . .	13
The Small and Medium Enterprise Promotion Law . . . . .	14
3. <u>THE FINANCIAL SECTOR</u> . . . . .	15
Institutional Set-up . . . . .	15
Capital Market . . . . .	16
Interest Rates and Monetary Policy . . . . .	18
4. <u>THE SMALL AND MEDIUM INDUSTRY BANK</u> . . . . .	20
A. <u>Institutional Aspects</u> . . . . .	20
Legal Framework, Organization and Staff . . . . .	20
Operating Policies and Development Strategy . . . . .	22
Project Appraisal . . . . .	23
Project Supervision . . . . .	23
Procurement and Disbursement . . . . .	24

This report was prepared by Messrs. T.N. Dinh and Robert Poldermans and Ms. Helen Chan following a field appraisal of SMIB in November 1978.

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	<u>Page No.</u>
B. <u>Operations and Developmental Impact</u> . . . . .	24
Scope of Operations . . . . .	24
SMIB's Operations in Perspective . . . . .	26
Summary of Financial Operations . . . . .	26
Characteristics of SMIB's Lending Operations . . . . .	27
Guarantee Operations . . . . .	32
Equity Operations . . . . .	32
Utilization of Bank Loan Nos. 1175-KO and 1507-KO . . . . .	32
SMIB's Extension Services . . . . .	33
C. <u>Financial Position, Performance and Resources</u> . . . . .	34
Financial Position . . . . .	34
Financial Performance . . . . .	35
Quality of Portfolio . . . . .	36
Terms and Conditions of Lending . . . . .	37
Resources . . . . .	38
Audit . . . . .	38
D. <u>Prospects and Resource Requirements</u> . . . . .	39
Business Prospects . . . . .	39
Financial Forecasts . . . . .	40
Domestic Currency Resource Position and Requirements . . . . .	41
Foreign Currency Resource Requirements . . . . .	41
5. <u>THE PROPOSED BANK LOAN</u> . . . . .	41
Recommendations and Justification . . . . .	41
Main Features of the Loan . . . . .	43
Agreements and Understandings Reached at Negotiations . . . . .	46

#### LIST OF ANNEXES

1. Board of Policy
2. Board of Directors
3. Policy Statement
4. Outline of Development Strategy for 1980/81
5. Supplementary Tables and Charts
  - T-1 Role of SMI in Manufacturing Sector
  - T-2 SMI Exports and SMIB's Assistance
  - T-3 Staff Position and Projected Requirements
  - T-4 Summary of Loan Operations, 1974-1978
  - T-5 Characteristics of Term Loans Committed, 1976-78
  - T-6 Partial Economic Indicators of Foreign Currency Loans  
Approved 1973-78
  - T-7 Present and Projected Labor Requirements and Supply

- T-8 Summary of Guarantee Operations, 1974-78
- T-9 Subprojects Approved under IBRD Loan No. 1507-K0  
as of December 31, 1978
- T-10 Summarized Balance Sheets, 1974-78
- T-11 Summarized Income Statements, 1974-78
- T-12 Summarized Cash Flow Statements, 1974-78
- T-13 Collection Performance, 1974-78
- T-14 Status of Loan Portfolio as of December 31, 1978
- T-15 Long-Term Borrowings as of December 31, 1978
- T-16 Net Resource Position, 1976, 1977, 1978
- T-17 Projected Operations, 1978-82
- T-18 Projected Balance Sheets, 1978-82
- T-19 Projected Income Statements, 1978-82
- T-20 Projected Cash Flow Statements, 1978-82
- T-21 Projected Resource Requirements
- T-22 Estimated Disbursement Schedule

Project File (Page 53)

- C-1 Organization Chart
- C-2 Small and Medium Industry Promotion Corporation  
Organization Framework

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Basic Data

(as of December 31, 1978, unless otherwise stated)

1. Year of establishment: 1961

2. <u>Ownership</u> :	Paid-in capital (in W million)	Percent
Government of Korea	20,044	99.9
Private shareholders	<u>16</u>	<u>0.1</u>
	20,060	100.0

3. Operations (in W million):

<u>Approvals</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Domestic currency equipment loans	7,295	18,755	21,663	42,638
Foreign currency equipment loans	12,369	13,533	23,991	36,498
(Foreign currency loans in \$'000) <u>/a</u>	(25,503)	(27,903)	(49,466)	(75,254)
Working capital loans <u>/b</u>	<u>843,301</u>	<u>1,174,228</u>	<u>1,544,177</u>	<u>2,222,772</u>
Total	862,965	1,206,516	1,589,831	2,301,908

Commitments

Domestic currency equipment loans	7,295	18,755	21,663	42,638
Foreign currency equipment loans	10,109	13,589	21,326	39,229
(Foreign currency loans in \$'000) <u>/a</u>	(20,843)	(28,018)	(43,971)	(80,885)
Working capital loans <u>/b</u>	<u>843,301</u>	<u>1,174,228</u>	<u>1,544,177</u>	<u>2,222,772</u>
Total	860,705	1,206,572	1,587,166	2,304,639

Disbursements

Domestic currency equipment loans	8,000	18,755	21,663	42,638
Foreign currency equipment loans	10,506	13,777	21,618	42,554
(Foreign currency loans in \$'000) <u>/a</u>	(21,662)	(28,406)	(44,573)	(87,740)
Working capital loans <u>/b</u>	<u>844,351</u>	<u>1,174,228</u>	<u>1,544,177</u>	<u>2,222,772</u>
Total	862,857	1,206,760	1,587,458	2,307,964

<u>Guarantees issued</u>	35,899	59,023	64,328	88,080
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Notes:

- Using an exchange rate of US\$1 = W485.
- These working capital figures are gross, and give a slightly distorted impression of SMIB's operations. The net working capital loans (disbursements-repayments) were as follows (in W million): 1975: 23,859, 1976: 25,240, 1977: 47,791, 1978: 71,786.

4. Status of portfolio (W million):

	<u>Equipment Loans</u>		<u>Working capital</u>	<u>Guarantees</u>	<u>Total</u>
	<u>Domestic</u>	<u>Foreign</u>	<u>loans</u>		
	<u>currency</u>	<u>currency</u>			
Cumulative commitments to					
December 31, 1978	135,773	135,654	8,621,828	320,338	9,213,593
Outstanding as of					
December 31, 1978	72,610	101,163	283,094	12,426	469,293

5. Earnings record (percentages):

	<u>Year ending December 31</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Net income as % of average equity	7.7	6.3	5.0	3.3
Financial expenses as % of average assets	7.7	8.0	7.7	8.6
Administrative expenses as % of average assets	4.1	3.5	3.2	3.3
Book value as % of par	225	155	140	129
Dividend payout ratio	36	0.2	0.1	23

6. Financial position (W million):

	<u>Year ending December 31</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Total assets	275,718	342,209	477,884	733,325
of which total loan portfolio	192,365	234,202	308,890	456,867
of which term loan portfolio	107,139	109,692	149,478	229,967
Long-term debt	131,508	133,266	164,698	240,781
of which in foreign currency	35,113	43,619	54,264	84,646
Equity	6,882	12,493	18,256	25,814
Current ratio	1.2	1.1	1.1	1.1
Total debt equity ratio	39.1	26.4	25.2	27.4
Long-term debt equity ratio	17.4	9.8	8.3	8.5
Reserves and provisions as % of portfolio	2.1	2.0	1.9	1.3

7. SMIB's interest rates and charges (as of Dec. 31, 1978):/1

Foreign currency loans

IBRD Loan 1175-KO	10.5% p.a.
IBRD Loan 1507-KO	9.9% p.a.
ADB Fourth Loan	10.9% p.a.
Korea foreign exchange	LIBOR + 1.5% p.a.

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/1 In line with the practice of Korean government-owned financial institutions in relending foreign exchange resources borrowed from official sources (IBRD, ADB, et al.), SMIB charges a uniform spread of two percentage points above its borrowing rates.

7. SMIB's interest rates and charges (as of December 31, 1978):

Domestic currency loans

Loans to cooperatives	13.0%
Government-funded working capital loans	13.0% p.a.
Government-funded equipment loans	17.0% p.a.
National Investment Fund loans	15.0% p.a. up to 3 years
	17.0% p.a. for 3 to 8 years
Internal fund loans	18.5% p.a. for prime borrowers
	19.0% p.a. for other borrowers
Penalty charge on overdue loans	25.0% p.a.

8. Status of IBRD loans as of April 30, 1979 (in US\$'000):

<u>Loan no.</u>	<u>Date signed</u>	<u>Date effec- tive</u>	<u>Rate of in- terest</u>	<u>On- lending rate</u>	<u>Loan amount</u>	<u>Com- mitted</u>	<u>Dis- bursed</u>	<u>Out- standing</u>
1175-K0	11/26/75	01/28/76	8.5	10.5	30,000	29,958	29,400	26,600
1507-K0	01/04/78	03/10/78	7.9	9.9	55,000	52,700	45,200	45,200



## 1. THE INDUSTRIAL SECTOR

### Contribution to the Economy

1.01 Since the early 1960's, manufacturing has been the fastest growing sector in the Korean economy. Over the last five years, its growth reached nearly 17% p.a., almost twice as fast as the 10.3% growth of aggregate GNP. The industrial sector, which accounted for 12% of GNP in 1961, reached 38.4% in 1978. Manufacturing contributed 42% of the increment in GNP over the last decade rising slightly to 44% during the past five years. Manufactured products represented about 90% of commodity exports in 1978, compared with 82% in 1965 and 60% in 1960. Industry has provided about one half of all jobs created since 1963; with approximately 3.9 million people employed, the industrial sector accounted for 28% of the total population employed in 1978 against 13% in 1966.

1.02 Manufactured exports have been the principal engine of growth of the Korean economy and the beneficial impact of the orientation towards labor-intensive exports can be seen in the factor proportions and efficiency of factor use in Korean manufacturing. The sector has generally been typified by low capital/output and capital/labor ratios and high rates of growth of productivity. The unlagged incremental capital/output ratio in the manufacturing sector was 1.7 (in 1975 prices) during 1968-78 but there has been a small increase in the ratio during the last few years which is perhaps due to the increased relative importance of steel, petrochemicals, shipbuilding and machinery industries. This fairly low ICOR is at least in part due to high rates of capacity utilization reflecting in turn good management and organization. After falling between 1960 and 1966, the average cost of job creation in manufacturing industry during the last decade has been relatively stable although it is recently showing signs of increasing due to growing shortages of labor. High and sharply increasing levels of labor productivity have been and remain a fundamental strength of the Korean development process. Real wages costs still appear quite competitive internationally although recent increases could affect Korea's competitive edge. However, productivity levels compare very favorably with other developing countries and are probably not too far behind those of Japan in the traditional industries. The efficient use of capital and the steady improvement in labor productivity have enabled the Korean economy to maintain a GNP growth rate of nearly 10.2% p.a. during the last decade while investing only about 28% of GNP on average.

1.03 Recent Performance. The Korean economy recovered remarkably well in 1976 and 1977 after the recessionary period of 1974-75. The performance of the manufacturing sector was particularly impressive with a 27% real growth of value added in 1976,<sup>/1</sup> 14% in 1977 and about 20% in 1978. Exports increased by about 40% in volume in 1976 and 17% in 1977, reaching US\$10.0 billion in that year, and growing further to US\$12.7 billion in 1978. This

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<sup>/1</sup> Compared to 13% in 1975.

growth in exports was historically led by a strong demand for Korea's traditional export products such as textile yarns, fabrics and clothing which maintained a share of about 35% of total commodity exports. Korea's efforts at reducing the concentration of its exports towards the US and Japan have met with considerable success in recent years; in 1977 the combined share of the US and Japan dropped to 52%, and in 1978 was estimated at 50%, compared with a level of 70% in 1973, essentially as a result of the development of new markets in Europe and the Middle East. Commodity exports to the Middle East, earlier negligible, amounted to more than US\$1.04 billion in 1977, and US\$1.1 billion in 1978.

### Structure of Industry

1.04 The following table shows the changes in the sectoral composition of the manufacturing sector between the years 1971 and 1976.

Table 1.1: VALUE ADDED IN MANUFACTURING /a  
(W billion)

	<u>1971</u>		<u>1976</u>		Growth rate %
	Value Added	%	Value Added	%	
<hr/>					
<u>Light Manufactures</u>					
Food, beverages, tobacco	191.0	29.0	301.4	18.1	9.5
Textiles, footwear, leather	150.4	22.8	560.0	33.7	30.1
Wood, furniture, paper printing	48.1	7.3	77.6	4.7	10.0
Rubber, clay, glass, stone products	40.5	6.1	78.0	4.7	14.0
Plastics	9.5	1.4	16.0	1.0	11.0
Subtotal	<u>439.5</u>	<u>66.7</u>	<u>1,033.0</u>	<u>62.1</u>	<u>18.6</u>
<u>Heavy Manufactures</u>					
Chemicals, petroleum and coal	117.4	17.8	213.7	12.9	12.7
Basic metals, metal products	22.3	3.4	70.7	4.3	21.0
Machinery (including electrical)	35.6	5.4	208.9	12.6	42.5
Transport equipment	28.1	4.2	91.7	5.5	26.7
Subtotal	<u>203.4</u>	<u>30.8</u>	<u>585.0</u>	<u>35.2</u>	<u>23.5</u>
Miscellaneous Industries	16.3	2.5	44.4	2.7	22.2
<u>Total</u>	<u>659.2</u>	<u>100.0</u>	<u>1,662.4</u>	<u>100.0</u>	<u>20.3</u>

/a At 1970 constant prices.

Light manufactures have declined from 67% of total manufacturing value added in 1971 to 62% in 1976, while heavy manufactures have risen from about 31% to 35% over the same period. In coming years, the Government intends to encourage more skill-intensive subsectors such as machinery and electronics where Korea enjoys a competitive advantage over other developing countries because of its skilled labor resources.

### Geographic Distribution

1.05 In 1975, (based on the October 1975 census) approximately 27% of the population of Korea lived in the cities of Seoul and Pusan; the Province of North Gyeongsang where Taegu, the third major industrial city, is located, accounted for another 14% of the population. The following table shows that the regional distribution of industry and industrial employment is also skewed in favor of Seoul and Pusan.

Table 1.2: GEOGRAPHIC DISTRIBUTION OF INDUSTRY  
(Percent)

	1971			1975		
	No. of establishments	No. of workers	Value added	No. of establishments	No. of workers	Value added
Seoul and Pusan	30.3	45.4	45.2	33.4	45.6	36.5
Other Regions	69.7	54.6	54.8	66.6	54.4	63.5
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Report on Mining and Manufacturing Survey, EPB 1975.

There was little change in the geographic dispersal of industrial employment in Korea between 1971 and 1975; Seoul and Pusan remain by far the largest industrial centers. The Government, however, has become increasingly aware of the need to achieve, through a wider geographic dispersal of industries, a better distribution of employment opportunities and a reduction of the congestion and overcrowding in Seoul and Pusan. In this connection, the Government is implementing the Population Dispersion Plan for the Seoul (Metropolitan) area during 1977-86. The Government has also been promoting the development of large industrial centers outside these two areas principally through the establishment of free trade zones and industrial estates. Examples of this policy include the iron and steel plants in Pohang, the petrochemical complex in Ulsan, the integrated chemical industry in Yeosu, and the machinery center at Changwon (para. 2.06). The Saemaeul Movement, initiated in 1971, also aims at creating industrial employment opportunities in rural areas and at reducing the disparities of income between urban and rural areas.

### Financial Structure of Enterprises

1.06 The interest rate structure and slowdown in economic activity during the period 1970 to mid-1972 had resulted in a deterioration of the financial position and structure of Korean enterprises. Companies had become highly dependent on the high cost, short-term "curb-market" for their financing. To improve their situation, a Presidential Decree of August 1972 froze all loans from the unorganized money market and new measures were adopted which lengthened maturities of certain loans, reduced interest rates to 16.8% p.a. and converted loans from shareholders into equity. These measures as well as the remarkable performance of the Korean economy in 1973 resulted in a considerable improvement of the financial position and performance of Korean enterprises. The aggregate debt/equity ratio of manufacturing enterprises fell from 3.9:1 to 3.1:1 in 1972 and 2.7:1 in 1973. The average interest rate on borrowings of manufacturing enterprises concurrently declined from 13.4% to 8.6%. Profitability improved markedly with net profits increasing from an average of 1% of total assets in 1971 to 7.9% in 1973. However, with the quadrupling of oil prices at end-1973 and sharp increases in the costs of raw materials, enterprises were again subject to considerable financial strains. In an effort to sustain economic activity and employment, the Government helped finance the buildup of manufacturing inventories. Enterprises were subject to increasing costs of production and had to resort to increased borrowings, hence the aggregate debt/equity ratio increased to 3.2 in 1974 and 3.6 in 1976. Profitability decreased with net income declining as a percentage of total assets from 7.9% in 1973 to 5.7%, 3.9% and 4.6% respectively in 1974, 1975 and 1976. There is, however, evidence that with the upturn in economic activity from the end of 1975 the financial structure and performance of Korean enterprises have improved.

### Trends in Industrial Investment

1.07 Fixed capital formation in the manufacturing sector amounted to W 1,544 billion in 1978, (equivalent to 21.9% of gross domestic capital formation in that year), which represented a 67% increase over the 1977 level of W 922 billion, which in turn, was 29% over the 1976 level of W 716 billion (all in current prices). In terms of constant 1975 prices, the real increase in fixed capital formation was nearly 55% between 1977 and 1978. During the remainder of Fourth Five-Year Plan period the growth rate of GNP is expected to be 9.3% per annum with mining and manufacturing growing at 13.5% p.a. Total gross fixed investment was projected at W 18,000 billion <sup>/1</sup> for the entire Plan period with manufacturing accounting for 28.3% by the end of the Plan period.

### Industrial Policies

1.08 Over the past ten years, industrial incentives in Korea have been highly responsive to particular and changing circumstances, and varied with Government policies and priorities for industrial development. These policies

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<sup>/1</sup> At 1975 prices.

aimed, with variable emphasis, at the promotion of export industries, geographic dispersal of industry, assistance to small and medium industries and, more recently, investment in heavy industries.

1.09 A comprehensive incentive system was established during the first half of the 1960s which generally favored the promotion of exports over import substitution. The main elements of the incentive package included unrestricted access to, and tariff exemptions on, imports of raw materials and capital goods, generous waste allowances in determining duty-free raw material imports; direct and indirect tax reductions; access to subsidized credit for working capital and fixed investment; and rate subsidies on certain inputs. Key import substituting industries received protection from imports through tariffs and quantitative import controls. Estimates of effective subsidy rates show, however, that export activity was generally favored over import substitution. The international competitiveness of Korean industry had substantially improved between 1970 and 1973 partly due to successive devaluations of the won, and the Government consequently decided to reduce export incentives. Preferential rates of corporate income tax were abolished and interest rate subsidies were also reduced. In 1975, tariff exemptions on imported inputs were abolished in favor of a system by which the tariff on imported inputs is paid at the time of importation and rebated at the time of export. Tariff exemptions on imports of machinery and equipment by export industries were abolished in 1974;<sup>/1</sup> payment of custom duties can, however, be stretched over a three-year period.

1.10 While key import substituting industries have been granted many of the preferences given to exporters, production for domestic sale has generally been subject to higher duties, taxes and interest charges compared with rates charged to exporters but has nevertheless benefited from tariffs and restrictions on imports. Over the last few years there has been a modest decline in tariff rates,<sup>/2</sup> and there was some reliance on import restrictions as a means of affording protection to domestic producers particularly in the case of capital goods. However in 1977-78 the Government relaxed some of these restrictions as part of an import liberalization program.<sup>/3</sup> As a counterpart for the protection which had been afforded to domestic producers through import controls, the Government in 1976 established price controls for major commodities.<sup>/4</sup> However, following the implementation of import liberalization in 1977/78, the Government is now planning to relax these price controls on a number of items.

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<sup>/1</sup> Only in the case of capital goods imported under foreign capital financing is there still complete and automatic exemption from tariffs.

<sup>/2</sup> The ratio of effective customs burden to total import declined from 8.9% in 1977 to about 7.1% in 1978.

<sup>/3</sup> The number of prohibited items has declined from 77 in 1968 to 66 in 1975 and to 60 in 1977 while items subject to import restrictions increased from 398 to 597 in 1976 but were reduced again to 456 in 1977.

<sup>/4</sup> In March 1976, the Government enacted the Price Stabilization and Fair Trade Law.

## Prospects

1.11 Export orientation has been the dominant feature influencing the structure and rate of expansion of the manufacturing sector. Export growth has been accompanied by a policy of selective import-substitution which has helped the aggregate dependence upon imported intermediate inputs and capital goods remain at roughly the same level over the last decade. Although import substitution has played a significant role in some sectors and over specific time periods, its contribution to the growth of manufacturing output as a whole has been very limited. It is estimated that over the period 1960-68 domestic demand contributed some 60% to the growth of manufacturing, while export expansion and import substitution contributed respectively 38% and 2%. The emphasis given to exports of light manufactures has resulted in a rather high degree of dependence upon imports as a source of raw materials and intermediate inputs, as is reflected in the fact that the domestic value added content of Korea's exports was only about 50% in 1975. While it is clear that Korea's poor natural resource endowment limits the scope for backward linkages, there is a real need for Korea to undertake a deepening of its industrial structure. Awareness of the desirability of deepening Korea's industrial structure was present in the formulation of both the Second and Third Five-Year Plans and led to the decision to build the first integrated steel mill and petrochemical complex. The long-term plan covering the decade up to 1981 which was published by the Economic Planning Board (EPB) in 1973 emphasized the accelerated development of the heavy and chemical industries as a critical element of Korea's future industrialization. The 1973-74 economic setbacks have rendered a reexamination of this long-term development plan necessary and while, in the Fourth Five-Year Plan, emphasis remains on developing heavy industry and on increasing the domestic content of exported manufactures, some heavy capital and energy-intensive projects have been deferred or cancelled altogether. A concomitant development has been the greater emphasis on light industries to meet domestic demand, which is also one of the measures aimed at relieving inflationary pressure.

1.12 Over the five-year period of the Plan (1977-81) the GNP was expected to grow at a rate of 9.2% p.a. fueled by a 16.5% annual growth in the volume of manufactured exports. The mining and manufacturing sector which in 1978 accounted for 28.2% of GNP (at current market prices) was expected to increase at 14.3% p.a., a higher rate of growth than that of GNP, which would bring the contribution of the mining and manufacturing sector to 41% of GNP by 1981. It was expected that some 55% of the two million new jobs to be created during the Fourth Five-Year Plan period will be in the mining and manufacturing sector. As in previous years, Korea's economic development would essentially remain export-led, the ratio of commodity exports to GNP which reached 27% in 1975 and nearly 32% in 1977, would rise to 42% by 1981. In 1978 it had reached 35%. However, compared to their real growth rate of 32% p.a. over the period of 1967-75, exports were projected to increase at a more modest 16.8% p.a. The Plan was based on the assumption that Korea's exports of textiles, clothing and other light manufactures had a limited growth potential and would be subject to encroachment by other developing

countries. Korea's comparative advantage will, therefore, increasingly lie in industries which require more skilled labor and greater industrial sophistication such as machinery, electronics and shipbuilding. The real growth of exports of these products would be around 30% p.a. over the 1976-81 period. The share of manufactures was expected to rise from about 85% of total merchandise exports in 1975 to 92% by 1981. By 1978 it had reached 90%. In order to sustain the projected GNP growth rate of 9.2% p.a., gross fixed investment would need to rise at 7.8% p.a. In relation to GNP, the projected investment is slightly lower than in the Third Plan period (26.2% of GNP as against 26.9% during the 1972-76 period). In 1977/78, however, this ratio actually increased to about 35% of GNP. The share of manufacturing investment in total gross investment was projected to increase by only 2% from its average share of 24.6% during the Third Five-Year Plan to 26.5% during the Fourth Five-Year Plan. The shift in Korea's export strategy towards more skill-intensive exports is reflected in both the planned structure of industrial output and in projected investment allocations. The share of heavy and chemical industries was expected to rise from 43% of total value added in manufacturing in 1975, to nearly 52% by 1981. Investment in light industries was expected to decrease from 40% of total investment outlays in the manufacturing sector over the Third Plan period to 36% over the next five years; conversely, investment in the heavy and chemical industries would be reduced in relative terms from approximately 75% of investment outlays in heavy and chemical industries over the Third Plan period to 61% over the Fourth Five-Year period in favor of investment in machinery and electronics which would increase from 25% to 39%.

1.13 The Plan's estimate of total investment required for the expansion and restructuring of Korea's industrial sector had been set at around \$ 10.5 billion over the 1977-81 period. There were grounds for believing, however that Korea's investment needs for 1977-81 may have been underestimated, while the domestic savings target (which calls for an increase in the proportion of domestic savings to GNP from 16.3% in 1970 to 27.1% in 1981) appeared somewhat ambitious. The conjunction of these two possibilities would have lead to a continued reliance on substantial inflows of foreign capital. Therefore the Korean Government has in recent years undertaken a major effort to mobilize domestic resources. Toward that objective, the Government established in 1973 the National Investment Fund (NIF), which is expected to finance a sizeable portion of the investment needs of Korea's major industries. The NIF was conceived as an important supplement to various programs of domestic savings mobilization, and particularly as a source of funds for long-term investment, primarily for plant and equipment. The NIF derives its funds from a variety of sources including the national savings associations; pension funds; postal savings; deposits in banking institutions (15% of which must be invested in NIF bonds); savings funds; and NIF's bond sales to the public. The Government has also embarked on a comprehensive capital market development plan, including the restructuring of the Korean Securities Financing Corporation and the development of new financial institutions such as merchant banks and the Korea Export Import Bank. Over the period 1977-81, the Plan expects domestic funds to provide 63% of the aggregate investment in manufacturing and foreign capital to provide the remainder.

1.14 The Fourth Five Year Plan, as described above, has to a certain extent been overtaken by recent events.<sup>1/</sup> The actual economic performance

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<sup>1/</sup> For a detailed discussion see "Korea: Rapid Growth and Search for New Perspectives," Report No. 2477-KO dated May 15, 1979.

during 1977/78 surpassed most of the FFYP targets. For instance, the GNP increased by 10.5% and 12.5% in 1977 and 1978 respectively, compared with FFYP targets of 10% and 9% for those years. Consequently, in order to counter the resultant inflationary pressures (wholesale prices increased by 11.7% in 1978) and promote stabilization, the Government introduced the Economic Management Plan (EMP) for 1979-81. The most important features of this Plan include a slower growth of real GNP of 9.3% p.a. for 1979-81, a slower growth of export volume of 12% p.a. for that period and a substantially reduced growth rate of real investment to only about 13% p.a. In addition this Plan envisages a greater emphasis on light industries geared to meeting domestic demand, and some reduction in investment growth in heavy and chemical industries (although their share of total exports is still estimated to increase significantly). Furthermore the rate of import growth is now expected to exceed the FFYP target.

1.15 The Bank has worked closely with the Government in the formulation and implementation of industrial policies and is in basic agreement with the main thrust and priorities of these policies.

## 2. THE SMALL AND MEDIUM INDUSTRY SECTOR

### Definition

2.01 The Small Industry Basic Act and the Presidential Decree enforcing the Small and Medium Industry Bank Act define Korean small and medium industries (SMI) in terms of total assets or employment size. These definitions were amended in January 1977 and the criteria presently applicable to the various subsectors are summarized below:

	Total assets (W million)	Number of employees
Mining, manufacturing, transportation	Up to 500	Up to 300
Construction	Up to 500	Up to 50
Commerce and services	Up to 50	Up to 20

Under Korean law, enterprises, depending on their size, are eligible for financial assistance from specific government-owned development finance institutions.<sup>/1</sup> The functional demarcation is broadly as follows; at the upper end of the size spectrum the Korea Development Bank (KDB) caters for large firms, i.e., those which exceed both of the criteria listed above. The Small and Medium Industry Bank (SMIB) provides financial assistance to small and medium enterprises which meet at least one of the two criteria above.<sup>/2</sup> At the lower end of the spectrum, the legal definition of enterprise size in Korea does not formally distinguish between small and medium, although in practice the ceilings (set by law and/or government regulations) on the

<sup>/1</sup> This does not apply to the operations of the privately-owned Korea Development Finance Corporation (KDFC) which may in principle finance enterprises of all sizes.

<sup>/2</sup> The bulk of firms financed by SMIB qualify under both limits, though under the second Bank loan 28 subborrowers (out of a total of 196) exceeded the SMI total asset limit of W 500 million, which is allowed for foreign exchange financing (up to W 1 billion, see para. 4.16). None, however, exceeded the employment ceiling of 300.



lending operations of the Citizens National Bank (CNB)/1 define the respective clienteles of SMIB and CNB. These matters are elaborated in greater detail in paras. 4.14-4.16.

#### Role of SMI in the Korean Economy

2.02 Various trends in recent SMI performance are summarized in Annex 5, Table 1. In 1977, there were an estimated 25,600/2 SMI enterprises in Korea representing about 96% of the total number of enterprises in the manufacturing sector. In the same year, SMI enterprises accounted for about 46% of employment and 33% of value added in the manufacturing sector. This implies that labor productivity in SMI enterprises, as approximated by value added per employee, was about half (57.7%) the level prevailing in large enterprises. The level of value added per employee in SMI has increased rapidly in recent years and consequently the labor productivity gap between large and small enterprises has declined slightly. The SMI sector accounted for a reasonably steady 30% of manufacturing output, but its share of manufacturing's fixed asset investment has increased from about 20% in 1975 to 26% in 1976./3 This shift to relatively greater capital intensity in SMI enterprises could have been due to the emergence of occasional labor shortages in 1976.

2.03 It is apparent that SMIs make an important contribution to the economy, especially in terms of employment. However, in the context of export-led growth, it is particularly SMIs' export performance which has been outstanding and represents perhaps one of its most significant contributions to overall growth in Korea. Over the past four years, about 36% of total commodity exports and 40% of total industrial exports originated in the SMI sector (Annex 5, Table 2), reaching US\$4.6 billion in 1978. This is significantly larger than the SMI share of manufacturing output and value added, which both stood at about 30% in 1975/76, and shows that Korean SMIs have been highly responsive to the Government's incentives aimed at an increased export orientation of SMIs.

#### Industrial Structure of SMIs

2.04 The proportional distribution of value added and employment per industry is shown below. It is worth noting that four industries, textiles, fabricated metals, food processing and chemicals accounted for 76% of value added and 77% of employment for SMI enterprises in 1976. This distribution is very similar to that of large enterprises where the same four industries

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/1 A maximum domestic currency capital loan size of W 30 million to enterprises employing up to 100 persons.

/2 Based on the new definition of up to 300 employees.

/3 Figures for 1977 not yet available.

accounted for 84% and 83% of respectively value added and employment. Amongst these four industries, labor productivity was highest in food processing and lowest in textiles, regardless of enterprise size.

STRUCTURE OF THE MANUFACTURING SECTOR IN 1976 (%)/a

	Value added			Employment		
	Total	SMI	Large	Total	SMI	Large
Food, beverages, tobacco	18.6	17.0	19.3	9.1	10.8	7.7
Textile, wearing apparel	22.5	23.6	22.1	35.5	34.8	36.0
Wood and wood products	2.5	2.9	2.4	3.6	3.5	3.7
Paper and paper products	3.6	6.3	2.5	4.2	6.3	2.5
Chemicals, rubber, plastics	20.7	16.4	22.5	13.0	10.5	15.0
Nonmetallic mineral products	4.8	8.9	3.0	3.9	5.2	2.8
Basic metals	5.4	3.2	6.3	3.1	2.8	3.4
Fabricated metals, machinery	19.9	18.8	20.3	23.2	21.1	24.9
Others	2.0	2.9	1.6	4.4	5.0	4.0
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

/a Based on current values and with SMI being defined as enterprises employing up to 300 persons.

Regional Distribution of SMI

2.05 The table below shows the regional distribution of Korean enterprises by size category. In 1976, SMIs were, in terms of number of establishments and employment, less concentrated in the two major cities of Seoul and Busan than large enterprises, which indicates that SMIs contributed more to the regional dispersal of employment opportunities.

2.06 The comparison between the regional distribution of SMI in 1972 and 1976, which shows an increasing concentration of SMI enterprises and employment in the two major industrial cities, is misleading as the definition of SMI applicable to the 1976 data was expanded substantially to include enterprises employing up to 300 workers.<sup>/1</sup> Indeed, despite this enlarged definition, the magnitude of SMI employment and enterprise increases in Seoul and Busan between these two dates is very modest. Hence it could reasonably be inferred that the period 1972-76 actually saw a change towards greater regional dispersal of all SMIs (as was the case for large enterprises). This was partly the result of the various measures undertaken by the Government to

<sup>/1</sup> This new definition is applied to 1976 while the old definition of up to 200 workers applies to 1972.

encourage the location of SMIs outside the two main urban centers, which include: (a) the Saemaeul (New Community) Movement, started in 1971, which inter alia promotes the development of small factories in rural areas so as to provide off-farm employment opportunities for rural households (para. 4.31); (b) the development of Regional Industrial Estates located near secondary cities and directed primarily towards the needs of SMI;<sup>/1</sup> and (c) Specialized Industrial Estates where industries specialized in a particular activity (e.g., machinery manufacturing) are located and where the larger industries provide opportunities for subcontracting and the provision of ancillary services by SMI.<sup>/2</sup>

REGIONAL DISTRIBUTION OF THE MANUFACTURING INDUSTRY, 1972 AND 1976 (%)

	<u>No. of establishments</u>		<u>No. of workers</u>		<u>Value added</u>	
	1972	1976	1972	1976	1972	1976
<u>SMI</u>						
Seoul and Pusan	30.9	35.3	42.1	44.3	46.5	43.5
Other regions	69.1	64.7	57.9	55.7	53.5	56.5
<u>Large-Scale</u>						
Seoul and Pusan	57.3	46.3	56.0	50.5	45.7	38.3
Other regions	42.7	53.7	44.0	49.5	54.3	61.7
<u>Total</u>						
Seoul and Pusan	31.9	35.8	49.7	47.7	46.0	39.9
Other regions	68.1	64.2	50.3	52.3	54.0	60.1

Note: Based on enterprises with no more than 200 employees in 1972 and 300 employees in 1976.

Financing of SMIs

2.07 Korean SMIs receive financial assistance from three sources: (a) the commercial banking system, comprising five nationwide commercial banks and ten local commercial banks; (b) the Small and Medium Industry Bank (SMIB); and (c) the Citizens National Bank (CNB):

<sup>/1</sup> There were 11 such estates at end-1978 in Daegu, Gumi, Jeonju, Iri, Kwangju, Mokpo, Cheonju, Daejeon, Wonju, Chooncheon, and Banwol.

<sup>/2</sup> At end-1978 there were six specialized industrial estates, for machinery, non-ferrous metals and precious-metals industries. The Government plans to establish a further 20 such estates over the period 1979-83.

LOANS TO SMI BY SOURCE OF FINANCE  
(On an outstanding basis in W million)

	1975		1976		1977		1978	
	Amount	%	Amount	%	Amount	%	Amount	%
Nationwide								
banks	341,788	45	437,546	45	632,298	48	908,645	48
Local banks	96,379	13	146,391	15	204,839	15	272,969	15
SMIB	183,635	25	225,428	23	296,523	22	456,867	24
CNB	131,396	17	166,498	17	193,349	15	237,553	13
<u>Total</u>	<u>753,198</u>	<u>100</u>	<u>975,863</u>	<u>100</u>	<u>1,327,009</u>	<u>100</u>	<u>1,876,034</u>	<u>100</u>

Most of the financing extended to SMI (about 90% on an outstanding basis) is in the form of short-term working capital loans. Commercial banks do not normally lend long-term funds for equipment financing but do have a liberal policy of rolling over short-term lines of credit as they mature. SMIB, and to a much smaller extent, CNB, are the major sources of equipment financing for SMI.

2.08 Commercial Banks. As indicated in the above table, the commercial banks are the major source of finance for SMI, although the bulk of their lending is for short-term working capital purposes. Commercial banks, including local banks, are statutorily required by the Government to direct at least 30% of their lending to SMI. Compliance with this requirement is supervised by BOK. Loans are granted on the basis of collateral and the borrower's credit standing.

2.09 Citizens National Bank (CNB). The Government-owned CNB was established in 1963 to extend consumers credit and provide banking services to households and very small enterprises of the cottage industry type. CNB is authorized to provide domestic currency term financing /1 (up to five years) for eligible borrowers, namely industrial enterprises employing up to 100 workers./2 The maximum loan size to small enterprises is W 30 million (US\$62,000)/2, and for households W 10 million (US\$20,600)./3 CNB's lending rate is 19% p.a. at present, which is in line with other institutions. Loans to small enterprises accounted for about 52% of CNB's outstanding portfolio,

/1 CNB has recently been authorized by Government to also undertake foreign currency term financing.

/2 Until February 1977, these limits stood at 49 employees, and W 5 million (US\$10,300).

/3 In addition, CNB may extend working capital loans to a maximum limit of W 40 million (US\$82,500) and guarantees to a limit of W 30 million. The Government is presently considering CNB's request to increase the limit on term loans from W 30 million to W 100 million (US\$206,000).

which stood at W 460 billion as of end-1978, the remainder being loans to households. CNB derives its financial resources mainly from demand and time deposits, and additionally from borrowings from the Government and BOK. At end-1978, its total assets amounted to W 870 billion (US\$1.8 billion) and its staff numbered 5,980 employed in 154 branches and 7 deposit offices throughout the country. To date, CNB lends on the basis of collateral and does not undertake project appraisal.

2.10 Fixed Investment in SMI. Total fixed asset formation by manufacturing industries reached W 1.2 billion in 1976, of which SMI enterprises employing up to 300 workers accounted for 25.5% or W 296 million (US\$610 million). Studies by SMIB have shown that up to 60% of SMI fixed investment is financed from the enterprises' internal funds and the balance from borrowings. Loans from institutional sources (e.g. commercial banks, CNB, SMIB, see paras. 2.07 - 2.09) accounted for only about 60% of SMI borrowings, which suggests that SMI enterprises had to rely partly on non-institutional sources of finance, including private borrowings and the curb market.

#### Nonfinancial Assistance to SMIs

2.11 Government Policy for SMIs. The Government launched its program for promoting small and medium industries in the early 1960s with the establishment of SMIB in 1961 and a Small Industry Division in the Ministry of Commerce and Industry. The Government initially confined its promotion efforts to the provision of financial assistance through SMIB and ensuring that adequate technical assistance was available through SMIB's extension services. Subsequently, as the importance of the SMI contribution to generating employment outside the urban areas and to the growth of exports and to the deepening of the industrial structure through subcontracting arrangements became more apparent, the Government broadened its efforts and introduced additional specific measures for SMI. These included: (a) the 1971 Saemaeul Program (para. 2.06) under which loans are provided at preferential interest rates, along with easy access to industrial utilities and land, and under which concessionary tax rates are applied for SMI enterprises establishing in rural areas; (b) incentives given to export-oriented SMIs to relocate in industrial estates and export zones and to coordinate marketing of SMI production overseas; and (c) special depreciation allowances encouraging modernization of machinery and productivity improvements. In addition to these measures the availability of financial assistance to SMIs at the smaller end of the spectrum (whose access to financing is frequently limited due to lack of collateral) has recently been improved with the establishment of the Korea Credit Guarantee Fund (KCGF)/<sup>1</sup> and the recent growth of leasing services./<sup>2</sup>

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/1 This fund was administered by SMIB until 1976 when it was spun off as an autonomous institution.

/2 Lease financing is unrelated to the lessee's capital base and collateral as the ownership of the financed equipment remains with the lessor. Hence it is particularly well suited to the needs of small and medium enterprises. The business of the three Korean leasing companies (Korea Development Leasing Corporation, Korea Industrial Leasing Company and Whashin Tiger International Leasing Co.) has grown rapidly in recent years.

2.12 Small Industry Bureau (SIB). Originally a Division of the Ministry of Commerce and Industry, the SIB is responsible for the formulation and implementation of Government policies for SMI. The SIB monitors progress in the SMI sector and gathers information on SMI. Due to its limited staff, the SIB relies heavily on SMIB, the National Federation of Small and Medium Industry Cooperatives and the provincial governments to carry out its functions. The SIB will also be coordinating closely with the recently established Small and Medium Industries Promotion Corporation (SMIPC).

2.13 Korea Federation of Small Business (KFSB)/1 Established in 1962 under the Small and Medium Industry Cooperatives Act, the KFSB is the apex institution of SMI cooperatives throughout the country. These cooperatives perform a number of functions for their members including provision of managerial and technical guidance, dissemination of economic and business information, joint purchase of raw materials, marketing assistance, etc. The cooperatives' operations are partially funded by the Government either through direct grants or indirectly through tax exemptions and subsidized loans.

#### The Small and Medium Enterprise Promotion Law

2.14 In 1976 the Government first increased its contribution to SMIB's paid-in equity capital, which symbolized the higher priority which it attached to the promotion of SMI. Since that date the Government has undertaken a comprehensive reexamination of the provision of financial and non-financial assistance to the SMI sector, which led to the enactment in December 1978 of the Small and Medium Enterprise Promotion Law. Although implementation decrees remain to be finalized, the broad outlines of the Act are summarized below.

2.15 The Act provides for a revised institutional structure dealing with promotion of and assistance to SMIs (Chart 2). The Small and Medium Industry Promotion Corporation (SMIPC), established in January 1979, will operate under the broad guidance of MCI and become the central agency for coordinating and executing the various promotional and assistance activities. The SMIPC will be an autonomous legal entity empowered to incur debt (including foreign borrowings). As regards the financial aspects of SMI assistance and promotion, the SMIPC will establish and administer a Small and Medium Industry Promotion Fund which will derive its resources from the Government (budgetary), from borrowings and from retained earnings. The SMIPC will allocate resources from this Fund to various Government financial institutions for onlending to SMI in accordance with specific developmental guidelines./2 The SMIPC will also make direct investments in equity of SMI enterprises, where appropriate. On the non-financial side, the Act's most important feature relates to the

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/1 Previously named the National Federation of Medium Industry Cooperatives (NFMIC).

/2 These will be developed by the SMIPC, and will stress modernization, balancing and "harmonization"; the development or importation of appropriate technology; the provision on a cooperative basis of warehousing, transportation, welfare and pollution prevention services to SMIs, etc.

provision of managerial and technical guidance (i.e. extension services) and training for SMI entrepreneurs. The SMIPC will coordinate the provision of extension services through multiple specialized agencies including SMIB, as well as providing such managerial and technical extension services itself. In addition, the SMIPC will establish a Training Institute for SMI entrepreneurs and extension officers. It is expected that SMIB's role in the promotion of and assistance to SMI enterprises in Korea will be enhanced as a result of this law, notably through its role as agent for the Government (i.e. SMIPC) in allocating the Promotion Fund resources.

### 3. THE FINANCIAL SECTOR

#### Institutional Setup

3.01 The financial sector of Korea consists of the Bank of Korea, Deposit Money Banks and nonbanking financial institutions. The Bank of Korea performs regular central banking functions, including the supervision of commercial banks.

3.02 Deposit Money Banks include commercial banks and specialized banks. Commercial banks receive most of their funds through deposits from the public. They can make all kinds of loans but have traditionally concentrated on short-term lending although term financing through roll-over of short-term loans is common. There are 5 nationwide commercial banks, 10 banks with localized operations and 21 branches of foreign banks which together had 743 branches/offices around the country at end-1978 (all these fall into the category of "commercial banks"). Four of the five nationwide commercial banks are fully controlled by the Government which, under Korean law, automatically receives majority rights if its holding in a nationwide bank is 10% or more. The fifth bank is controlled by the semi-official Korean Traders Association. All commercial banks are subject to control and supervision by the Bank of Korea while specialized banks are directly controlled by the Ministry of Finance. The specialized banks were all established under a Special Banking Act and are subject to only a few specific Articles of the Bank of Korea Act and General Banking Act. Specialized banks are government-controlled and/or owned. As their name implies, they were founded for particular purposes or sectors (such as small-scale industry financing or agricultural financing) and government funds constitute a substantial part of their financial resources in addition to resources raised otherwise, the bulk of which consists of deposits raised from the public, hence their categorization as Deposit Money Banks. Specialized banks include the Korea Exchange Bank, which was established in 1967 mainly to relieve the Bank of Korea of commercial foreign exchange business, the Small and Medium Industry Bank which extends financial and technical assistance to small and medium-scale industries, and which has so far received two Bank loans totalling US\$85 million, the Citizens National Bank (mainly for mobilizing small savings and financing household loans and small enterprises), the Korea Housing Bank, the National Agricultural Cooperative Federation (NACF) and the National Fisheries Cooperative.

3.03 Besides the above-mentioned banking institutions which, with the BOK as supervising agency, constitute the "Monetary System," there are several nonbanking financial institutions, namely: (a) development finance institutions; (b) savings institutions; (c) life insurance companies; (d) investment companies; and (e) Merchant Banks. The development finance institutions comprise the Korea Development Bank (KDB) which so far has received three Bank loans totalling US\$252.5 million, the Korea Development Finance Corporation (KDFC) to which Bank Group assistance, including IFC, amounts to US\$340 million to date, the Land Bank and the Export-Import Bank. Savings institutions comprise some 1,200 authorized credit unions and 211 mutual savings and finance companies. Five life insurance companies operate in Korea, in addition to the Postal Life Insurance and the Educational Insurance Company. Investment companies include the Korea Securities Finance Corporation which is the principal organization for securities financing in Korea, ten short-term finance companies /1 and the Korea Investment Trust Corporation which is specialized in the establishment of investment trust funds. In addition, three leasing companies have been established over the last few years as joint ventures between Korean and foreign investors. The Merchant Banks are the latest arrivals on the Korean financial scene. Five such banks have so far been established; the Korean Merchant Banking Corporation (KMBC); the Korea-Kuwait Banking Corporation; the Saehan Merchant Banking Corporation; the Korea-French Banking Corporation and the Asian Banking Corporation.

3.04 As of December 31, 1978, total loans outstanding to the manufacturing sector by the deposit money banks and KDB amounted to W 4,247.6 billion or US\$8.75 billion equivalent. About 73% of this was for operating funds, mainly supplied by commercial banks. The largest supplier of equipment loans (i.e. term loans) is KDB which, as of December 31, 1978 had an outstanding portfolio in the manufacturing sector of W 552.3 billion (US\$1.14 billion), which accounted for the bulk of the outstanding medium and long-term credit by banking institutions to the manufacturing sector as of that date.

#### Capital Market

3.05 The Korean Stock Market was moribund for many years but showed signs of life in 1972. Before then the yields on stocks were considered unattractive as both savings accounts of commercial banks and the "curb market" gave higher returns. The market was also thin because closely held companies were reluctant to go public. With the mid-1972 economic boom and the adoption of new financial measures by the Government (para. 1.06), the public showed growing interest in the stock market. The curb market was severely checked as a result of the August 1972 measures and with decreasing interest rates offered by commercial banks, yields on stocks became attractive. In addition, the overall investment climate became more favorable after August 1972, and the campaign for more stock listings and for companies to go public was intensified. The result was a large increase in stock exchange activity in

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/1 Including the Korea Investment Finance Corporation (KIFC), an affiliate of KDFC.



the second half of 1972 and in 1973. In 1974, however, the growth of trading activities on the exchange slowed down considerably due to the gloomy business outlook; new stock listings, however, continued to rise reaching almost W 500 million at the end of 1974. The following table summarizes the stock exchange activity over the last few years (figures are shown as of the end of each period):

Table 2.2: STOCK ACTIVITY 1971-1978

	No. of listed companies	No. of shareholders (in '000)	Capital of listed stock (W billion)	Market value of listed stock (W billion)
1971	50	81.9	141.4	108.7
1972	66	103.3	174.3	246.0
1973	104	200.0	251.6	426.2
1974	128	199.9	381.3	532.8
1975	189	290.7	643.4	916.0
1976	274	568.1	1,153.3	1,436.1
1977	323	395.3	1,492.4	2,350.8
1978	356	n.a.	1,913.5	2,892.5

With the general improvement of the business climate and improved export prospects, trading picked up again around mid-1975 and for the year as a whole the number of stocks listed almost doubled.

3.06 During 1977, the capital market exhibited a highly active performance in response to the Government's vigorous efforts to promote the going public of privately held companies. The supply of capital through the stock market to business firms during the year totalled W 363 billion, which exceeded the year's target of W 320 billion. Of this, W 44 billion was through public offering of equity shares, W 142 billion through share capital increases of listed companies, and the remaining W 177 debentures. The volume of transactions in the secondary stock market expanded by 119% during 1977, recording the trade volume of W 1,375 billion (1,271 million shares) and the number of listed companies on the Korea Stock Exchange increased by 49 to 323. The stock price index rose by 21.3% to 504.1 at end 1977, largely led by the substantial gain in prices of stocks of those companies engaged in construction services, automobile manufacturing and cement industries.

3.07 In 1978 the number of listed companies showed a further increase of 33 to reach a total of 356. The market value of the listed stock also continued to grow, registering a 23% increase over 1977 and amounting to a level of W 2,892.5 billion (or US\$5.96 billion). To complete the overall favorable growth experienced in 1978, the stock price index /1 performed well and reached an average level of 202.8 as compared with an average of 154.5 in 1977.

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/1 Revised to a 1975=100 basis.

3.08 The rapid increase in the volume of operations on the Stock Exchange had rendered certain improvements necessary. Among others the call market has been replaced by a continuous auction market, investment trust companies have been established, and the information system greatly improved. Several weaknesses remain, however. One of the more important problems lies in existing laws which stipulate that new equity issues have to be at par irrespective of the market price of the market price of stocks. These regulations are currently under review by the Government. In addition, gradual internationalization of the domestic stock market is being initiated by the Government.

#### Interest Rates and Monetary Policy

3.09 The Government through the Monetary Board determines interest rate ceilings on deposits and loans which apply to all banking institutions. Although private specialized financial institutions such as KDFC or the short-term finance companies are not legally bound, in practice, they too have to follow government policies. The development of Korea's interest rate structure has, between 1968 and 1973, seen a continuous reduction in both deposit, and lending rates. The lowering of the rates coincided with the Government's success in gradually bringing inflation down until late 1973. With the emergence of the oil crisis and worldwide inflation, Korea's price structure was particularly hard hit because of its high foreign trade dependence. Wholesale prices are estimated to have increased by nearly 80% between the end of 1973 and the end of 1975. While the Government selectively increased interest rates at the end of 1974,<sup>/1</sup> a general increase of interest rates was postponed because enterprises were already facing severe financial strains and the Government hoped to succeed in bringing inflation under control. During the year 1976, wholesale prices are estimated to have increased only by 12.1% on an annual basis.

3.10 On August 2, 1976, the Government made an extensive upward adjustment in and revision of the interest rate structure in order to contain excessive loan demand and to better allocate funds. Prior to this date, Korean commercial banks had already resorted to various practices which resulted in increased collateral requirements and higher effective lending rates for their less creditworthy borrowers. Such practices included the collection of interest in advance, the establishment of compensating balances on time deposits or even the opening of installment savings accounts which are used both as collateral and sinking funds. The August 1976 measures

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<sup>/1</sup> Raising rates on time deposits for over three months and over six months from respectively 12% to 15%, and preferential rates for loans from the NIF and IRF from 9% and 8% respectively to 12%.

acted to ratify and further rationalize this system of differentiating between borrowers on the basis of the risks involved. It led to a system whereby (a) the interest rates on working capital loans vary according to the credit standing of the borrower and (b) interest rates on equipment loans vary according to the loan maturity. The Korean financial authorities established a list of criteria for enterprises to qualify as a prime borrower which has helped reduce the need for subjective judgments on the credit-worthiness of borrowers. This introduction of a prime rate system for working capital loans and of differential rates according to loan maturities for equipment loans constitutes an important step towards improving the overall allocation of funds to industry.

3.11 Effective July 1, 1977, the Government replaced the previous excise business and consumption taxes by the value added tax (VAT) system, all goods and services being assessed at a flat rate of 10%. There was some apprehension amongst the general public that the new taxation system might result in an increased tax burden on industrial enterprises and consequently in sharp rises in the cost of living. While the Government did not subscribe to this thinking it decided to introduce various anti-inflation measures to moderate the possible adverse impact of the new tax system. These measures included: (a) a lowering of bank lending rates by 1% on July 1 and a further 1% on October 1; time deposit rates were also lowered by 1.8% as from October 1, 1977; (b) the Government realigned and announced the prices of 851 major commodity items, pegged the maximum permissible price levels of major daily necessities and froze public utility rates until further notice; (c) easing of import restrictions as discussed in para. 1.10; and (d) measures to restrict growth of money supply including issuance of treasury bills and repayment of some Government borrowings from the Bank of Korea. During 1978, the Government continued with its active interest rate policy and in June raised the general level of the structure of interest rates, chiefly as a countercyclical measure, deposit rates being raised to 18.5% and onlending rates to 19% or higher.

3.12 The rate of increase of wholesale prices in 1977 was 10.1% and the growth of domestic money supply 40.7%. The targets set for 1977 as a whole were a 10% limit to wholesale price increases and about a 25% limit to domestic money supply growth. The money supply in the foreign sector more than doubled in 1977 and in the last quarter of 1977 the Government introduced various measures to curb its growth. Foreign banks were instructed in early December to freeze their won loans at their October 1977 level; reserve requirements for foreign currency deposits have also been established and enforced. Further measures have also been taken to curb money supply growth in the domestic sector; however, price controls were partially eased in two stages on August 1, 1977 and December 1, 1977. In 1978, wholesale prices increased by 12% and the growth of domestic money supply was reduced to 24.9%.

#### 4. THE SMALL AND MEDIUM INDUSTRY BANK /1

##### A. Institutional Aspects

##### Legal Framework, Organization and Staff

4.01 Legal Framework and Ownership. The Small and Medium Industry Bank (SMIB) was established under the Small and Medium Industry Bank Act of July 1, 1961 for the purpose of extending financial and technical assistance to small and medium-sized enterprises, as defined in the Presidential Decree of August 1, 1961 which enforced the SMIB Act. Prior to the creation of this new, specialized institution, the financial requirements of small and medium industries were met by the commercial banks and the Korea Agricultural Bank. SMIB's operations, broad policy framework, scope of activities, administration and capitalization are governed by the SMIB Act. As a specialized financial institution, SMIB is subject to the broad supervision of the Ministry of Finance (MOF), whose approval is required for the adoption and/or revision of SMIB's by-laws, operating manuals, annual plan of operations, appropriation of earnings and the appointment of SMIB's top management. As a banking institution, SMIB is further subject to the supervision of the Bank of Korea (BOK) particularly concerning its commercial banking activities such as mobilization of deposits, discounting of bills, letters of credit, etc., all of which are regulated by the General Banking Act.

4.02 SMIB's Act was last amended in December 1975. On that occasion, SMIB's authorized share capital was increased from W 6 billion to W 30 billion. At end-1978 the paid-in capital stood at W 20.06 billion. This represents a substantial increase over recent years (compared with, say, W 3.06 billion at end-1975), and stemmed largely from an agreement reached with the Government during negotiations for the first Bank loan (September 1975), when the Government undertook to increase SMIB's paid-in share capital as required to maintain its long-term debt:equity ratio within the agreed limit of 10:1. The SMIB Act also stipulates that the Government must own a minimum of 50% of SMIB's share capital. As of end-1978, the Government owned 99.9% of paid-in share capital, with private shareholders accounting for the remaining 0.1%. These residual private holdings amounting to W 16 million resulted from the disposition of excess dividends following the liquidation of the Federation of Financial Associations of Korea at the time of SMIB's establishment.

4.03 Organization and Autonomy. The SMIB Act provides for a dual Board structure. The Board of Policy deals with overall policy matters, and comprises seven members including SMIB's President (who acts as Chairman), one representative each from Ministry of Finance, Ministry of Commerce and Industry, Bank of Korea, National Federation of Small and Medium Industry Cooperatives, and two members representing small entrepreneurs who are selected by

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/1 The Medium Industry Bank (MIB) was officially renamed in English, "The Small and Medium Industry Bank" (SMIB) effective January 1, 1979. This new name reflects a correction of a previous mistranslation. Its official Korean name has always been "The Small and Medium Industry Bank."

MOF (Annex 1). The Board of Policy meets about three times a year primarily to approve the settlement of SMIB's annual accounts and the appropriation of earnings, any amendments to the by-laws and operating manuals, and SMIB's annual plan of operations. Resolutions of the Board of Policy regarding the above matters are subject to the approval of the Minister of Finance.

4.04        The Board of Directors has overall executive authority, which includes the approval of loans and guarantees exceeding certain ceilings. It also has seven members, including SMIB's President (acting as Chairman), Deputy President and five directors (Annex 2). The dual Board structure and demarcation of functions, as outlined above, has proved to be appropriate and effective. On the one hand, it enables key government officials and representatives of the SMI business community to participate in broad policy deliberations within the Board of Policy, thereby facilitating the flow of information between SMIB, the Government and the private sector. On the other hand, it concentrates executive authority in the Board of Directors which is a full-time professional body consisting of SMIB's senior management team. This dual Board set-up therefore enables SMIB to operate within the framework of Government policy while at the same time maintaining full autonomy in its operational decisions.

4.05        Management. Mr. Sang Jin Nam, a former Vice-Minister of MOF, was appointed SMIB's President in May 1976. He is assisted by a Deputy President, Mr. Sung Sang Park (formerly an Assistant Governor of the Bank of Korea), and five Directors. This management team has, collectively, substantial experience in banking and financial matters. Each Director is in charge of at least three of SMIB's 17 Departments (Organization Chart). SMIB's Presidents have historically been appointed from senior levels of the Government hierarchy. SMIB has an experienced and competent cadre of managers in its departments and branch offices. It also has considerable depth at the deputy manager level.

4.06        Staff. SMIB's total staff numbered 4,032 at end-1978, of which 936 (or 23%) were stationed at Head Office and 3,096 (or 77%) at the branches. Of this staff, about 24% were professionals (defined by functional category, such as economists, engineers, financial analyst, etc.). SMIB's staff requirements are projected to increase to 4,930 by 1982. (Annex 5, Table 3). SMIB recruits mainly college graduates and places considerable emphasis on systematic training, involving academic and professional training overseas, courses at the Korea Banking Institute, various in-house courses, and a general policy of rotational assignments within SMIB which are geared to developing greater staff versatility. This comprehensive and methodical approach to staff development has enabled SMIB to build up a solid cadre of experienced and well-rounded professionals, notably at the lower and middle management levels. The overall quality of SMIB's staff is good.

4.07        The staffing of the various departments at Head Office is adequate (Organization Chart), and is sufficient to cope with the growing volume of SMIB's business. Staff turnover for SMIB as a whole has declined from 11.5% in 1976 to 9.4% in 1977 and to 7.8% for 1978. However, amongst the more experienced professional staff members, particularly those with a working knowledge of

English, the turnover has remained fairly high, which is mainly attributable to the differences in compensation packages and promotion prospects between the government banking sector and the rapidly growing private industrial sector. This has in particular affected the Foreign Loan (FLD), Extension Services (ESD), and Research and Statistics (RSD) Departments. On the whole, however, staff turnover has had no discernible impact on SMIB's operational efficiency, and new recruitment and internal transfers have maintained a satisfactory number and distribution of staff. The management of SMIB is keeping the situation under close review.

4.08 Branches. With the rapid increase in income levels in Korea, SMIB is making increasing efforts to tap the household and "storeholder" sectors for the mobilization of demand and savings deposits, which represent a major source of funds for its operations. Consequently, it has embarked on a program of expanding its branch network from 65 branches in mid-1977 to 104 by end-1978, increasing to a planned 112 by end-1979. In addition, SMIB maintains 6 deposit offices. This branch network expansion policy is sound as regards the mobilization of domestic resources and geographical dispersal of SMIB's operations, but it has resulted in a relatively high level of administrative expenses (3.3% of average total assets in 1978), although this is still not excessive relative to the levels of commercial banks, to which SMIB, by virtue of its organization, is more comparable than to conventional DFCs.

#### Operating Policies and Development Strategy

4.09 In 1969, SMIB's Board of Policy adopted a Policy Statement which supplements the policy and operational guidelines of the SMIB Act (Annex 3). It states that SMIB will assist small- and medium-scale private enterprises with broad priority being given to export-oriented, relatively labor-intensive, import substituting and subcontracting activities. It further outlines SMIB's general operating procedures and financial exposure limits, notably the provision that SMIB's total commitments in any single enterprise will not normally exceed 25% of SMIB's total paid-in capital, legal reserves and surplus; or 60% of the total assets of the enterprise. The financial guidelines do not specify a statutory limit on SMIB's long-term debt/equity ratio, but a limit of 10:1 has been agreed by SMIB with IBRD and ADB. The long-term debt/equity ratio was 8.5:1 at end-1978.

4.10 Since 1975, SMIB has, in consultation with the Bank, formulated successive Development Strategies outlining its specific developmental objectives for two-year periods of operations. Satisfactory progress has been made in implementing past objectives. SMIB intends to consolidate these achievements during 1980/81 by placing renewed emphasis on: the mobilization of medium- and long-term domestic currency resources; the geographical dispersal of its portfolio; and the provision of financial assistance (in accordance with Government objectives) to small-scale and relatively labor-intensive enterprises, small- and medium-sized machinery enterprises selected by the Government under the FFYP (thereby promoting subcontracting arrangements), and small rural industries within the Saemaeul Program (Annex 4).

### Project Appraisal

4.11 For short-term working capital loans, SMIB's lending decisions are essentially based on an assessment of the borrowers' credit standing and available collateral, rather than on project analysis, a practice in line with commercial banking. For term loans, SMIB's project analysis and appraisal is sound. Throughout the project cycle the branch and head office staff coordinate their work closely, especially on technical feasibility (which benefits from SMIB's links with KIST /1) and creditworthiness aspects. In parallel with this appraisal interaction, SMIB delegates loan approval authority for amounts below certain ceilings (\$100,000 for foreign currency loans) to its branch managers. The analysis of technical, marketing, financial, managerial and economic aspects (mostly partial economic indicators, ERRs are calculated only for projects above the free limit) of projects, is generally comprehensive and thorough and continues to show improvement. Under the second Bank Loan SMIB, after consultation with the Bank, has endeavored to speed up processing of subprojects below the free limit by simplifying its appraisal methodology and submitting a project summary (rather than a full appraisal report) to the Bank. Experience with this scheme has been satisfactory. Given the relatively large number of subprojects expected under the proposed Bank loan (about 260) and the consequent need to speed-up the subproject appraisal process, it is appropriate that SMIB should continue with this scheme.

### Project Supervision

4.12 Project follow-up is delegated entirely to the branch offices, except for foreign currency loans which are supervised jointly by the FLD at head office together with the branches. SMIB's loan agreements with its subborrowers specify rights of project inspection and reporting requirements which include submission of financial statements, information on production, sales and changes in management or production facilities. More specifically, following discussions with the Bank at the time of negotiations for the first Bank loan, SMIB introduced a Project Monitoring System designed to evaluate progress in project implementation and to measure ex-post the actual costs, production and sales levels for comparison with FLD's ex-ante appraisal estimates. SMIB appreciates the benefits of this scheme and will continue to expand it./2 The financial and statistical monitoring is supplemented by field visits to projects, normally at least twice a year and more frequently for problem projects. The branches generally have frequent contacts with clients, who, apart from term loans, often also receive working capital loans and maintain deposit accounts with SMIB. The officers in the branches are therefore well placed to diagnose implementation and liquidity problems

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/1 The Korea Institute of Science and Technology.

/2 An analysis of 76 subprojects completed in the first half of 1977 indicates that appraisal estimates are increasingly accurate. For instance, only 11% of the projects had cost overruns of more than 10%.

at an early stage, and SMIB has accordingly trained its branch deputy managers in the provision of basic managerial and technical consultancy services. More complex problems are referred to ESD at head office. The Branches refer matters of loan rescheduling, foreclosure or write-offs to the Loan Settlement Department at head office, and final decisions are subject to the approval of the Loan Settlement Committee.<sup>/1</sup> SMIB's follow-up work is very effective, as reflected in the quality of its portfolio and low level of arrears (para. 4.43).

#### Procurement and Disbursement

4.13 SMIB's procurement and disbursement procedures, as defined in its Operating Manuals, are satisfactory, and their enforcement has ensured an efficient and appropriate use of funds. For foreign currency loans the ESD helps the borrower in drafting invitations for bids and supervises the opening of bids. Procurement is normally based on about three competitive quotations from foreign suppliers (international competitive bidding is rare for procurement under SMIB's relatively small loan amounts). The final offer and contract is jointly evaluated by the borrower and SMIB and is subject to the latter's approval. For domestic currency term loans, disbursements are made in accordance with the progress in project implementation which is monitored by the loan officer.

### B. OPERATIONS AND DEVELOPMENTAL IMPACT

#### Scope of Operations

4.14 There are four major institutions which provide development financing assistance to the Korean industrial sector. Their functional demarcation is broadly as follows: at one extreme of the institutional spectrum, the government-owned Korea Development Bank (KDB) concentrates on financing relatively large enterprises, assists government-sponsored and nonmanufacturing projects as well as private manufacturing enterprises, and provides both working capital and long-term finance in domestic and foreign currencies. Its total assets amounted to W 1,969.0 billion (US\$4.06 billion) at end-1978. The privately-owned Korea Development Finance Corporation (KDFC) also concentrates on financing relatively large firms,<sup>/2</sup> assists mainly manufacturing enterprises all of which are privately-owned, and provides almost exclusively long-term finance in foreign currency. Its total assets amounted to W 164.4 billion (US\$339 million) at end-1978. SMIB, which is government-owned, finances only small and medium-sized firms (para. 4.15), most of which are relatively modern privately-owned enterprises in the manufacturing sector, and it provides both

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<sup>/1</sup> Which is composed of the Deputy President, the five directors and the managers of the LSD and Accounting office.

<sup>/2</sup> KDFC, however, with a view to enhance its socioeconomic impact, has embarked on some limited but useful schemes for assisting small and medium enterprises.



working capital and long-term financing in domestic and foreign currencies. Its total assets amounted to W 733.3 billion (US\$1.51 billion) at end-1978. At the smallest end of the scale, the government-owned Citizens National Bank (CNB) finances the very small "household" enterprises in the informal cottage industry/storeholder subsector, and provides domestic currency loans only (CNB has, very recently, been authorized by the Government to undertake long-term foreign exchange financing). Its total assets amounted to W 870 billion (US\$1.8 billion) at end-1978. The demand for industrial financing in Korea has hitherto been so large that, in so far as their lending activities overlap, the operations of these four institutions have been complementary rather than competitive.

4.15 The SMIB Act confines SMIB's financing to "small and medium enterprises" as officially defined by the Presidential Decree enforcing the Act. Since its inception in 1961 to 1976, small- and medium-scale manufacturing enterprises were defined as those with either total assets not exceeding W 50 million or with less than 200 employees. In the context of rapid economic growth and changes in the industrial structure, a Presidential Decree of January 18, 1977, increased these upper limits to W 500 million and 300 employees respectively. These two limits constitute the official demarcation between SMIB and KDB; if an enterprise qualifies under either or both of these limits, it is eligible for borrowing from SMIB, but not KDB, and conversely, if it exceeds both size limits, it is eligible for borrowing from KDB only, and not SMIB. Although there is no official distinction between small and medium enterprises in Korea, the lower limits of enterprises eligible to borrow from SMIB are in practice defined by the official restrictions on CNB's financing. CNB is not allowed to lend to enterprises with more than 100 employees nor is it allowed to make domestic currency equipment loans in excess of W 30 million.<sup>/1</sup> If an enterprise exceeds either or both criteria, it must borrow from SMIB, while conversely, if it is within both limits it is eligible for borrowing from both SMIB and CNB. Apart from these official criteria, there is a further, less formal, operating distinction between CNB and SMIB; namely that the former concentrates on the informal/cottage subsector of small industry while the latter operates mostly in the organized, relatively modern subsector. The official ceilings which will apply to CNB's future foreign exchange operations have not yet been defined. In summary, SMIB's operations are subject to specific upper limits, but at the lower end of its operating scale there are no official lower limits, instead there is an area of overlap with CNB. Despite this degree of overlap, SMIB is the predominant institutional source of long-term domestic and foreign currency financing for SMI in Korea (para. 2.07).

4.16 As the eligibility criteria for SMI subborrowers are alternative (either total asset size or employment size) SMIB could in theory finance firms which apart from their employment size do not have any other characteristics of SMI enterprises (e.g., relatively large capital-intensive firms). Consequently, the Bank as well as ADB, in dealing with SMIB, have come to regard the asset size of enterprises as the more meaningful criterion. The Bank has imposed an asset limit on the use of its funds, which, given

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<sup>/1</sup> Further details on CNB's operations in para 2.09.

that foreign exchange financing is in greatest demand from firms at the larger end of the SMI spectrum, should be higher than the total asset limit applied to domestic currency borrowers (W 500 million). Consequently, in agreement with the Government and SMIB, this asset limit has been fixed at W 1 billion (US\$2.06 million).

#### SMIB's Operations in Perspective

4.17 SMIB's operations have grown rapidly and as of end-1978 its outstanding loan portfolio of W 456.9 billion (US\$942.0 million) represented about 5.3% of the total outstanding loans, both short- and long-term, extended by all banking institutions in Korea.<sup>/1</sup> In the particular field of term finance, SMIB accounted for about 9.4% of all medium- and long-term equipment loans outstanding to enterprises of all sizes in the manufacturing, construction and transportation sectors as of December 31, 1978. SMIB's medium- and long-term financial assistance <sup>/2</sup> to SMI enterprises in the manufacturing sector accounted for 25.8% of total fixed investment by those enterprises in 1977, as compared with 21.6% for 1976 and 24.0% in 1975.<sup>/3</sup> Apart from its financing activities, SMIB makes valuable qualitative contributions to the SMI sector through the high standard of its operations, its frequent contacts with its clients, its broad coverage of the SMI sector, its supervision work and its extension services.

#### Summary of Financial Operations

4.18 SMIB's operations are summarized in Annex 5, Table 4. At end-1978, SMIB had a total outstanding loan portfolio of W 456.9 billion (US\$942.0 million). The most noteworthy feature of SMIB's financing activity is that it is geared to meeting both the long-term and short-term resource requirements of its clients. SMIB's term financing consists of equipment loans in domestic and foreign currencies. Its short-term financing includes discounting of trade bills, overdrafts, and general working capital loans. The latter two account for the great bulk of SMIB's short-term operations (almost 94% in 1978) and are financed from deposits, while bill discounting is financed through the Bank of Korea's rediscounting facility.

4.19 Equipment Loans. At end-1978, SMIB's outstanding term (equipment) loan portfolio amounted to W 173.8 billion (US\$358.3 million) which represented 38.0% of its total outstanding loan portfolio. SMIB's cumulative commitments of equipment loans since its inception in 1961 to end-1978 totaled

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<sup>/1</sup> By comparison, KDB accounted for 16.7% of all outstanding loans.

<sup>/2</sup> On a commitment basis, for both foreign and domestic currency loans.

<sup>/3</sup> These aggregates conceal substantial differences between various industries within the SMI manufacturing sector; for instance, 42.5% of total SMI fixed investment in textiles was financed by SMIB in 1977 and 33.2% for basic metals, but only 2.2% for SMI food and beverage industries (1978 estimates are not yet available).

W 271.4 billion (US\$559.6 million) of which foreign currency loans accounted for W 135.6 billion (US\$279.6 million) or 49.9%. On a cumulative basis, this proportion represents an increase in the foreign currency term loan commitments made by SMIB, because, while SMIB did begin lending in foreign currency in 1965, substantial foreign exchange resources became available to it only relatively recently, starting in effect with the third ADB loan in 1973. The growth of SMIB's term loan commitments has apparently not been constrained by demand, as indicated by the fact that the 1978 level represented more than a fourfold increase over that of 1975. Instead, the magnitude and growth trends of term loan operations have on the whole been a function of resource availability. For instance, the decline in domestic currency commitments in 1975 was attributable to a shortage of long-term won resources made available to SMIB by the Government, while, conversely, the subsequent increase in 1976 was made possible by a cash subscription of W 5 billion to SMIB's share capital by the Government and a high level of collections. Similarly the increase in foreign currency commitments beginning in 1976 and increasing nearly threefold in the two years to 1978, is a reflection of the availability of the two IBRD loans. From this historical record, it can reasonably be assumed that, subject to the availability of adequate resources, SMIB should face no difficulty in continuing to expand its foreign currency term financing commitments at its conservatively projected rate of 7.0% p.a. (para. 4.54).

4.20 Working Capital Loans. During 1978, SMIB's lending for working capital purposes increased by 43.9% over 1977, which itself increased by 31.5% over 1976. The growth of SMIB's working capital financing reflects the growth of deposits which is the main source of funds for these operations. The outstanding working capital loan portfolio increased to W 283.1 billion (US\$583.7 million) by end-1978, which represents 62.0% of SMIB's total outstanding loan portfolio.

#### Characteristics of SMIB's Lending Operations

4.21 Sectoral Distribution. The manufacturing sector received nearly all of SMIB's commitments of domestic currency term loans in the last three years, accounting for an average of 99.8% of total commitments over that period (Annex 5, Table 5). Within manufacturing, textiles and machinery were the two dominant subsectors accounting respectively for 28.0% and 33.4% of total commitments in 1978. Similarly, the manufacturing sector received the overwhelming bulk of SMIB's commitments of foreign currency term loans in 1976 (98.1%) and 1977 (97.3%), although this declined sharply to 83.7% in 1978. This decline was due to the rapid increase in that year of SMIB's lending to construction enterprises. Within manufacturing, the textiles and machinery subsectors dominate, although in 1978 their share of SMIB's total foreign loan commitments did decline to 19.4% and 33.1%, respectively.

4.22 With about 69% of SMIB's term lending in 1976 and 1977 going to two subsectors, textiles and metal products/machinery, SMIB potentially over-exposed itself to cyclical or external factors affecting the performance of these industries. SMIB is therefore reducing the concentration of its

term loan portfolio and so far this is reflected particularly in the share of textiles falling from 26.7% of commitments in 1977 to only 19.4% (for foreign currency) in 1978. However, there have been, and remain, valid reasons for SMIB's relatively heavy concentration in these two subsectors. In the case of textiles, for instance, it reflects to a degree SMIB's emphasis (as stated in both its Act and Policy Statement) on assisting export-oriented and labor-intensive industries. Of the 31 textile projects financed under the second Bank loan (until end-1978), the average fixed investment cost per incremental job was \$14,900 (with several projects below the Bank UPP threshold of \$6,270 for Korea, see Annex 5, Table 9) and 16 of these projects exported more than 50% of incremental output. Furthermore, the textile industry is expected to grow at 11.9% p.a. until 1981, even though it will diminish in relative importance within the Korean manufacturing sector and its share of total exports is projected to decline from 36% in 1975 to 26% by 1981. In the case of metal products/machinery industries, SMIB's high exposure reflects its deliberate support of a subsector which has been designated by the Government in the FFYP, together with heavy and chemical industries, as a high priority and high growth subsector (a target of 21.6% p.a. until 1981), with a key role in deepening Korea's industrial structure. Therefore, in this developmental and macroeconomic context, the extent of SMIB's exposure in its term financing of these two subsectors is justified.

4.23 Geographical Distribution. As stated in its Development Strategy, SMIB has endeavored to diversify the geographical distribution of its financing operations (Annex 5, Table 5, Section C). There have been instances where it has been modestly successful, for example in the South Chungchung Province which increased its share from 5.0% of term loan commitments in 1977 to 7.4% in 1978, and in SMIB's support of Saemaeul industries, notably in the North Kyungsang and North Chungchung Provinces. However, for foreign loan commitments, the share of Seoul City has increased from 33.9% in 1976 to 35.9% in 1978, and similarly the share of Busan City has increased from 7.8% to 13.6% over the same period. These figures do not indicate a high degree of success with its diversification efforts and SMIB should endeavor to improve on this performance.<sup>/1</sup> However, if compared to the sources of SMIB's deposits, this lending distribution still represents a net transfer of resources from these large urban areas (which provide 73% of SMIB's deposits) to other regions. Nevertheless, there remains scope for further geographical diversification of SMIB's portfolio, particularly of its term loans which are not funded from deposits. It is expected that the opening of additional branches in the regions (para. 4.08) will enable SMIB to further this objective.

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<sup>/1</sup> In 1978, Seoul and Busan jointly accounted for 49.5% of SMIB's foreign loan commitments, while it is estimated that these cities (in 1976) accounted for about 35% of the total number of SMI establishments in Korea, 44% of SMI employment and 43% of value added by SMI manufacturing enterprises.

4.24 Loan Size Distribution. The average size of SMIB's domestic currency term loans increased slightly from W 15.1 million (US\$31,000) in 1976 to W 17.3 million (US\$35,700) in 1978. Similarly, foreign currency term loans increased from an average of W 79.4 million (US\$164,000) in 1976 to W 89.6 million (US\$184,700) in 1978 (Annex 5, Table 5, Section D). For foreign currency loans, this was associated with an increase in the average proportion of total project costs financed by SMIB, from 53.7% in 1976 to 57.0% in 1978. Against the background of the increasing size of industrial investments in Korea and price inflation, these trends indicate that SMIB has, as a matter of deliberate policy, given increasing priority to the financial needs of smaller enterprises.

4.25 Subborrower Asset Size. Asset size data on a commitment basis is only available for 1978 (Annex 5, Table 5, Section F). This indicates that (by loan amount) most of SMIB's foreign exchange borrowers have total assets in the range of W 300-500 million, or US\$0.6-1.0 million. By number of loans, borrowers with total assets of W 100-300 million (or US\$0.2-0.6 million) predominate. The diversity of SMIB's clients by asset size is satisfactory.

4.26 Employment Creation. Between 1976 and 1978, SMIB has allocated its domestic currency term loans increasingly to enterprises employing a larger number of workers, with the 100-200 employee category accounting for about 37% of SMIB's commitments by end-1978. For foreign currency term loans, the trend has been mixed with SMIB's commitments to the smallest enterprises (in employment terms) of less than 50 employees increasing from 18% to 28% over this period while commitments to enterprises employing over 200 workers also increased from 16% to 35% over the same period (Annex 5, Table 5, Section G). Between 1973 and 1978, it is estimated that SMIB-supported projects directly created about 46,000 jobs. For projects receiving foreign currency loans from SMIB, the average fixed investment cost per job increased from \$6,030 in 1975 to \$9,000 in 1976, \$8,875 in 1977 and \$12,200 in 1978 (Annex 5, Table 6). These averages, however, conceal the considerable diversity of fixed investment costs per job associated with projects selected for financing by SMIB. In Annex 5, Table 9, for instance, an analysis of the labor-intensity of projects financed by SMIB under the second Bank loan indicates that in 1978 there were 47 subprojects (out of 196 approved by end-1978), receiving US\$7.8 million in subloans from SMIB, with fixed investment costs per job below \$6,270, mostly for textiles and small metal workshops. These projects therefore qualify under the Bank-defined UPP threshold (1978 prices) for Korea and also under the component within the second Bank loan which was designed to support, inter alia, relatively labor-intensive enterprises (see para. 5.03).

4.27 As SMIB caters to the financial needs of medium as well as small industries, the 1978 level of average fixed investment cost per job (\$12,200) can be considered appropriate, particularly if compared with equivalent indicators of the other development finance institutions operating

in Korea.<sup>/1</sup> The rate of increase over the last few years is also considered reasonable, particularly in view of three recent macroeconomic developments in Korea. Firstly, there are increasing shortages of labor, both skilled and unskilled. For example, a recent survey (Annex 5, Table 7) indicates that SMI enterprises were operating with an average of only 92.8% of their total labor requirements. As a result of the emergence of labor shortages, it is understandable and appropriate that SMI entrepreneurs are increasingly choosing more capital-intensive methods of production. Secondly, the increases in the investment cost per job are at least in part caused by price inflation in Korea (10% in 1977 and about 12% in 1978). This effect is compounded by the fact that the investment costs in question, while expressed in US dollar equivalents, in fact represent costs of imported equipment often purchased from "strong" currency countries which had in recent years appreciated vis-a-vis the dollar. The dollar equivalent figures are therefore artificially inflated in a period of dollar depreciation. Thirdly, the rate of increase of SMIB's average investment cost per job reflects not only the two aforementioned factors, but also the recent sectoral shift in SMIB's foreign loan operations undertaken in accordance with the Government's FFYP priorities, notably from the relatively labor-intensive textile industry (para. 4.22) to machinery and construction industries which are more capital intensive. Finally in evaluating SMIB's performance in supporting labor-intensive enterprises, it should be noted that investment cost per job figures exclude indirect employment effects and there are indications that these are substantial, particularly for SMI enterprises.

4.28 Contribution to Exports. Between 1973 and 1978, the incremental exports generated by projects receiving SMIB's foreign currency loans were estimated at US\$313.5 million, or 39% of incremental sales. This high level of incremental exports is mainly attributable to the large number of textile subprojects financed by SMIB, particularly in the early part of this period.

4.29 Annex 5, Table 2, indicates that exports from SMI industries accounted for about 36% of total commodity exports and 40% of total industrial exports from Korea over the last four years. SMIB continues to make its contribution to Korea's export-led growth by specifically assisting export-oriented enterprises in the SMI sector, as detailed in its Policy Statement (Annex 3). In 1977, 18.7% of SMIB's foreign currency loan approvals (by amount) was allocated to export-oriented projects which increased to 26.8% in 1978 with the share of projects exporting more than three-fourths of incremental sales increasing to nearly 14%. SMIB's performance in supporting export-oriented subprojects is satisfactory.

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<sup>/1</sup> For instance, the average fixed investment cost per job for KDFC's subprojects (including those financed through KDLC and under its scheme of cooperation with the Regional Commercial Banks, both designed to support small industries) was \$24,500 in 1977.

4.30 Other Features. Due to the expansion of SMIB's operations (and also partly due to inflation) the estimated annual monetary value of incremental sales generated by SMIB's foreign loan subprojects has increased consistently since 1973 to reach W 121.3 billion (US\$250 million) in 1978, and, similarly, the level of incremental value added has increased to reach W 41.6 billion (US\$85.7 million) in the same year (Annex 5, Table 6). With certain data reservations, the changes in the average value added per additional employee and the average value added/fixed assets ratio could be interpreted to suggest that since 1973 the productivity of labor in SMIB's foreign loan subprojects has increased and the productivity of capital has declined slightly.<sup>/1</sup> There has also been a tendency for SMIB foreign loan commitments to new projects to decline from 26.2% in 1976 to 21.4% by 1978 (the remainder going to expansion projects), while the comparable figures for domestic currency term loans show a slight increase from 11.6% to 16.4% (Annex 5, Table 5). While these levels do not appear high, they are to a certain extent understated because of definitional problems. SMIB's efforts to broaden its clientele have been satisfactory, particularly for foreign currency loans of which 57% of the amount outstanding at end-1978 was allocated to clients with only one loan from SMIB. For working capital loans, the reverse was the case, with 43% of the amount outstanding at end-1978 being allocated to clients with more than three loans from SMIB, which is in keeping with normal banking practice.

4.31 In accordance with a specific objective in its Development Strategy, SMIB has provided adequate support to the Saemaeul Program by financing 341 projects for an amount of W 13.7 billion (US\$28.3 million) up to end-1978, of which 45% was allocated to Saemaeul textile projects and 12% to metal and machinery projects. In addition, SMIB conducted feasibility studies for 126 Saemaeul projects in 1977 and a further 20 in 1978. In some cases, SMIB has acted as an agent by financing government-designated Saemaeul projects, and in 1979 a planned W 170 million of NIF funds will be channelled by the Government through SMIB to support the Saemaeul program. Where possible, SMIB has also promoted subcontracting arrangements, and hence the extent of industrial linkages. Under the second Bank loan, 27 projects operating under subcontracting arrangements received financial assistance totalling \$8.5 million, or 18.3% of approvals under that loan. Finally, SMIB has endeavored to support specialized SMI machinery industries (a priority sector) and over the period 1976-78 assisted 44 clients in that industry with term loans in both foreign and domestic currencies amounting to W 9.2 billion (US\$19.1 million). In 1979 a further 100 machinery enterprises will be designated by the Ministry of Commerce and Industry (MCI) for assistance, and SMIB will act as agent for the Government in providing financial assistance to this group. SMIB is also assisting Korean machinery industries indirectly by financing the foreign exchange component of domestically procured capital

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<sup>/1</sup> Which on very restrictive assumptions is to be expected as the capital intensity of SMIB-supported projects increases.

goods./<sup>1</sup> An amount of US\$2.7 million (or about 6% of approvals) for 26 subprojects had been utilized in this manner under the second Bank loan by end-1978.

#### Guarantee Operations

4.32 SMIB's guarantee operations are undertaken as a part of the services it renders to its borrowers in connection with its commercial banking activities. Since 1975, almost all the guarantees issued have been short-term guarantees against trading documents, payment of import duties, etc. Long-term guarantees are issued mainly to other financial institutions lending to clients of SMIB whose collateral is already pledged to SMIB. Since 1975, issuance of such long-term guarantees has been negligible. At end-1978 outstanding guarantees amounted to W 12.4 billion or US\$25.6 million (Annex 5, Table 8).

#### Equity Operations

4.33 SMIB does not intend, in the immediate future, to undertake equity operations. Most small entrepreneurs in Korea do not welcome institutional equity participation and frequently do not keep accurate (or audited) financial accounts on which institutions like SMIB can rely. Moreover, the amount of manpower which SMIB would have to devote to administer SMI equity investments would be totally disproportionate to the benefit realized by either the enterprise or SMIB. Finally, neither SMIB's financial structure nor its management/staff orientation allow it to prudently engage in operations as inherently risky as providing venture capital.

#### Utilization of Bank Loan Nos. 1175-K0 and 1507-K0

4.34 SMIB has approved the entire proceeds (US\$30 m) of the first Bank loan (1175-K0; effective January 1976) for 138 subprojects. The Bank funds accounted for 46% of the total investment cost of these projects and 76% of the total fixed asset costs. These subprojects are expected to directly generate about 6,700 new jobs at an average capital cost of US\$8,700 per job. SMIB's utilization of the first Bank loan has been satisfactory./<sup>2</sup> As of December 31, 1978, SMIB had approved US\$44.3 million of the proceeds of the second Bank loan (US\$55 million; effective March 1978) for 196 subprojects. These Bank resources constituted about 90% of SMIB's total financial assistance (US\$49.4 million) to these subprojects, which itself financed about 59% of the US\$83.9 million total subproject cost. SMIB's subloans ranged in size from US\$10,000 (brick-making) to US\$1.37 million (construction), with an average of US\$226,300. The average total asset size of the subborrowers (at the time of application to SMIB) was W 280 million (US\$580,000) and

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/1 A percentage of 60% of total cost, representing the estimated foreign exchange component of domestically manufactured capital goods, is eligible for financing under the second Bank loan No. 1507-K0.

/2 For detailed analysis of subprojects financed under the first Bank loan, see Annex 7 of Appraisal Report No. 1797-K0, dated November 30, 1977.



the average employment size was 72. From the full range of asset size and employment characteristics, and subloan sizes, contained in Annex 5, Table 9, it is evident that SMIB's allocation of the second Bank loan has not been unduly skewed towards the 'medium' end of the SMI spectrum at the expense of the 'small' end. The sectoral distribution shows a satisfactory diversity, although certain industries were emphasized by SMIB in its support of key SMI subsectors, such as construction (48 subprojects), textiles (31), metals (21), plastics (16) and machinery (10). The bulk of the projects were for expansion purposes, with only 17 being new projects. By virtue of an understanding with the Bank, SMIB calculates FRRs and ERRs for projects above US\$0.5 million (which is also the free limit under the second Bank loan) and for the seven subprojects in this category the FRRs ranged from 17.6% to 36.2%, averaging 24.4%, and the ERRs ranged from 31.6% to 83.2% averaging 51.5%. SMIB has clearly allocated Bank funds to projects which are both economically and financially viable.

4.35 Preliminary estimates indicate that 5,255 incremental jobs will be directly generated by these subprojects at a fixed investment cost per job ranging from US\$1,760 (chemicals) to US\$96,000 (feed mill) with a weighted average <sup>/1</sup> of US\$11,130. These figures exclude indirect employment generation. The details contained in Annex 5, Table 9 indicate that the range of investment costs per job is extremely large, with 47 projects receiving US\$7.8 million in foreign loans from SMIB (or 18% of SMIB's approvals from 1507-KO by end-1978) qualifying under the US\$6,270 UPP limit (1978 prices) set for Korea. SMIB's performance in utilizing the second Bank loan to support, inter alia, relatively labor-intensive projects is very satisfactory, especially in the light of several recent macroeconomic developments in Korea (see para. 4.27).

#### SMIB's Extension Services

4.36 Shortly after its establishment, SMIB started providing managerial assistance to SMI enterprises, initially on a limited basis but subsequently expanded to include technical consultancy. In connection with these extension services, SMIB received financial and technical assistance (expatriate advisors) from the UNDP/ILO between 1968 and 1974. An Extension Services Department (ESD) was established, its staff trained, extension manuals written, and SMIB was thereafter in a position to provide managerial, financial and technical consultancy services to SMI enterprises in Korea (not restricted to SMIB clients).

4.37 The ESD at present numbers a total of 29 professionals of whom 2 are managerial, 8 are providing on-site and written consultancy services to textile, machine tool, electronic and ceramic industries, and the remaining 19 provide procurement advice and prepare feasibility studies for the larger foreign loan subprojects to be financed under IBRD/ADB lines of credit (2 of those staff members are based in Busan, 1 in Taegu). In addition, the ESD staff regularly conduct professional seminars for SMI enterprises. The fees charged by SMIB for its consultancy services are nominal (a fixed

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<sup>/1</sup> Weighted by number of jobs.

W 20,000, or US\$41, per plant visit) and do not allow cost recovery. The amount of extension assistance has declined since the early 1970s, in 1978 only 155 <sup>/1</sup> in-plant consulting cases were handled by SMIB (mostly in ceramics, textiles and machinery), which is clearly short of the demand for consultancy services from an estimated 25,600 SMI enterprises in Korea. SMIB has been unable to fulfill its 1976/77 Development Strategy objective of increasing its extension services principally because of its inability to sufficiently enlarge its qualified ESD staff, which is largely due to the unfavorable levels of compensation in the government banking sector compared with those of the industrial private sector. (In general, the latter is about twice the former.)

4.38 Apart from SMIB, there are an increasing number of alternative sources of consultancy advice including private consulting firms, KOSTIC <sup>/2</sup>, and some universities, all of which are considerably more expensive. The Government has been aware of the need to considerably expand the availability of effective and affordable technical assistance to SMI enterprises, and the Small and Medium Enterprises Promotion Law which was passed in November 1978 envisages an alternative organizational structure for that purpose (details in para. 2.15). It is expected that subsequent to the implementation of this law SMIB will continue to provide some extension services and also use its extension staff for feasibility studies of subprojects applying for SMIB foreign currency financing.

### C. FINANCIAL POSITION, PERFORMANCE AND RESOURCES

#### Financial Position

4.39 Assets. Balance sheets for 1974 to 1978 are summarized in Annex 5, Table 10. At end-1978, SMIB's total assets stood at W 733.3 billion (US\$1.51 billion) following an annual average growth of about 36% since 1974. At the same date, SMIB's current assets amounted to W 484.2 billion (or 66% of total assets) after growing at an average annual rate of about 44% since 1974. This rapid increase in current assets is attributable to the growth of two main components, cash and bank deposits, and short-term working capital loans, which since 1974 grew at an average annual rate of 53% and 35% respectively. At end-1978, SMIB's long-term assets amounted to W 230 billion (or 31% of total assets), of which about 44% was accounted for by foreign currency term loans. The breakdown of outstanding foreign loans by source indicates that the proportion of SMIB's foreign operations funded by IBRD lines of credit increased from 15.2% in 1976 to 21.8% in 1977 and 32.1% 1978. SMIB's total loan portfolio, including short-term working capital loans, constituted 62% of SMIB's total assets at end-1978. This level was slightly lower than the average of 69% which prevailed from 1974 to 1977, principally because of the rapid increase in cash holdings and SMIB's investment in securities.

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<sup>/1</sup> Compared with 350 in 1970.

<sup>/2</sup> Korea Science and Technology Information Center.

4.40 Liabilities and Equity. Of SMIB's total assets at end-1978, 63% were financed by current liabilities (48% by short-term deposits), 33% by long-term liabilities, and 4% by equity. SMIB's current liabilities and particularly its short-term deposits (which constituted an average of 74% of current liabilities since 1974) have grown at an increasing annual rate averaging 48% since 1974. This reflects SMIB's policy emphasis on the increased mobilization of demand and savings deposits in the macroeconomic context of raising domestic currency resources.<sup>/1</sup> For example, at end-1978, SMIB's total deposits amounted to W 471.6 billion compared with the end-1977 level of W 307.2 billion. Of total deposits at end-1978, 75% was current and 25% long-term and 52% represented household savings and 36% corporate savings. SMIB's long-term liabilities totaled W 240.8 billion at end-1978, of which 35.1% represented foreign currency borrowings, 49.1% long-term savings deposits, and the remaining 15.8% long-term Government funds (such as NIF and IRF). The foreign currency proportion of SMIB's long term liabilities has steadily increased from 24.3% in 1974 to 26.7% in 1975, and 35.1% in 1978. Borrowings from IBRD as a proportion of total foreign currency borrowings increased from 15.0% in 1976 to 23.4% in 1977 and 38.3% in 1978, which is reasonable.

4.41 SMIB's paid-in capital amounted to W 20.06 billion (US\$41.4 million) at end-1978, having increased rapidly from the 1975 level of W 3.06 billion (US\$6.3 million). This reflects recent Government contributions to SMIB's share capital made in accordance with the Government's undertaking under the first Bank loan to provide SMIB with additional equity capital as needed to enable SMIB to maintain its long-term debt/equity ratio within the agreed 10:1 limit. As a result of this, the long-term debt/equity ratio has declined from 17.4:1 in 1975 to 9.8:1 in 1976, 8.3:1 in 1977 and 8.5:1 in 1978. It is recommended that this limit be maintained under the proposed loan. As a result of the equity increases, SMIB's total debt/equity ratio has also declined from 39.1:1 in 1975 to 27.4:1 in 1978 which represents a substantial improvement and is not excessive for an institution heavily involved in commercial banking operations and which derives a large part of its resources from deposits, particularly short-term demand deposits. Despite the recent increase in SMIB's current liabilities, its current ratio has remained at 1.1 since 1976, which is satisfactory. SMIB's short-term liquidity is controlled by the BOK's reserve requirements and is under the supervision of the Superintendent of Banks. SMIB's debt service cover was 1.13 in 1978, which is adequate.

#### Financial Performance

4.42 Income and cash flow statements, and indicators of financial performance, are summarized in Annex 5, Tables 11-12. In 1978, SMIB's gross income reached W 73.2 billion (US\$151.0 million), of which 77.4% was derived from interest on all loans and 10.1% from interest on foreign currency term loans. Gross income has increased at an average rate of 36% since 1974, which is highly satisfactory. SMIB's net income stood at W 722 million (US\$1.5 million) in 1978, a slight decrease over the 1977 level of W 763 million. SMIB's profitability is modest with net income being only 0.1% of average

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<sup>/1</sup> SMIB offers potential savers an "Installment Savings Deposit" (up to three years and even longer in some cases), which is a long-term savings instrument unique in Korea.

total assets in 1978, and declining as a proportion of average equity from 9.9% in 1974 to 3.3% in 1978 (which is partly due to the large increases in SMIB's equity since 1976). While the growth of gross income has been very satisfactory, the net profitability of SMIB therefore remains modest. This is due to the rapid growth of total expenses which, at an annual average of 36% between 1974-1978, was equal to the growth rate of gross income. In particular, SMIB has made substantial provisions for doubtful accounts of W 630 million in 1976 and W 1.2 billion in 1977, which reflects financial prudence. In addition, the growth of administrative and general expenses, notably salaries and wages, has been rapid, on account of: the nonprofit development-oriented activities undertaken by SMIB, partly at the request of the Government, such as extension services to nonclient companies, assistance to Saemaeul projects and issuance of import licences; the mobilization of petty savings from small depositors through a costly nationwide network of branches and deposit offices; and the high overheads usually associated with lending to small-scale enterprises. While these factors explain, and justify, the high absolute level of SMIB's administrative expenses, SMIB has in 1978 succeeded in keeping these costs down to a relative level of only 3.3% of average total assets (from 4.1% in 1975), which compares favorably with that of other nationwide deposit money banks in Korea. The appropriation of SMIB's net profits is subject to the prior approval of MOF, and in 1978 an amount of W 164 million was paid to Government as dividend despite the reduced level of net profit of W 722 million. This new policy represents a reversal of the negligible dividend payment to Government over the last 2 years 1976-77.

#### Quality of Portfolio

4.43 Annex 5, Tables 13-14 summarize SMIB's collection performance and arrears situation from 1974 to 1978. SMIB's portfolio is of unusually good quality considering that SMIB operates in the small business sector which is generally considered high-risk, and considering its large clientele.<sup>/1</sup> At end-1978, total arrears of principal and interest (for both short- and long-term loans) was W 7.3 billion and represented only 1.6% of the total outstanding portfolio, an improvement on the mid-1977 level of 3.5%. Principal affected by arrears stood at W 7.8 billion or 1.7% of SMIB's total outstanding portfolio in 1978, a substantial improvement over the mid-1977 level of 5.5%. The repayment performance of equipment loans has been relatively better than that of working capital loans, partly because the equipment loan portfolio (notably the number of clients) is much smaller. Debt collection has been very satisfactory, being above 99% for all loans since 1974. This generally excellent repayment record of SMIB's clients is partly attributable to the continuing strong performance of the Korean economy, notably of the SMI sector. However, as more loans emerge from the grace period the collection ratio on foreign equipment loans has slightly worsened to 94.9% in 1978, which is still quite satisfactory. The sectoral analysis of SMIB's foreign loan arrears indicates that 39.7% of the outstanding principal affected by arrears (at end-1978) was in textiles, 17.1% in metal products and machinery and 15.5% in paper and paper products, which reflects the sectoral distribution of SMIB's outstanding foreign loan portfolio.

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<sup>/1</sup> At end-1978, SMIB's portfolio consisted of 42,000 accounts outstanding with about 25,000 clients.

4.44 Despite the satisfactory existing situation, the sheer size of SMIB's outstanding loan portfolio, of which W 95.3 billion (US\$196.5 million) or 21% was still in the grace period (at end-1978), and the increase in number of clients, suggest that some arrears must be expected to continue and additional arrears to emerge. Since 1975, SMIB has made provisions exceeding actual write-offs in accordance with the agreement reached with the Bank at the time of appraisal of the first Bank loan, No. 1175-K0. In 1977, the level of provisions reached W 1.22 billion as compared with write-offs of W 226 million in that year. SMIB has also agreed with the Bank, at the time of negotiations of the second Bank loan to instruct the external auditors to certify the adequacy of the provisions for doubtful accounts based on the auditors' review of SMIB's portfolio in arrears and its collateral. This has been implemented and in 1978, on the basis of the low level of arrears and write-offs and taking into account the large appropriations into the special reserves, the auditors have approved a reversal of the provision allowance of W 858 million.

#### Terms and Conditions of Lending

4.45 The terms of SMIB's borrowings, and its relending rates are summarized in Annex 5, Table 15. The lending rates charged by SMIB are not set independently by SMIB's Board, but are regulated by the Government through the Monetary Board and apply to all banking and financial institutions. On the domestic currency side, a dual interest rate structure exists. The "general lending rates" applicable to operations financed out of SMIB's own funds (deposits and equity) stood at 18.5% p.a. for prime enterprises and 19% p.a. for other borrowers as of July 1, 1978 (following a general increase in interest rates effective June 13, 1978). SMIB charges "preferential lending rates" on loans made out of various specialized funds, such as the NIF (15% p.a. for loans up to 3 years, 17% p.a. for 3-8 years) and the SMI Promotion Fund (13.5% p.a.). As SMIB also contributes its own resources to these funds, (15% of SMIB's annual incremental deposits are contributed to the NIF) which could otherwise be lent at an average rate of 18.6% p.a., it receives an interest subsidy from the Government of about 4%. On the foreign currency side, SMIB normally onlends the funds with a spread of two percentage points (maximum allowed by Government) above its own borrowing rate /1 and with the full foreign exchange risk borne by subborrowers. The weighted average /2 interest rate charged on SMIB's outstanding foreign currency loans was about 10.08% p.a. in 1978. This is not substantially different from the average levels prevailing during the three years since 1976 and despite an average annual rate of inflation of about 11% (wholesale prices) over that period, these SMIB interest rates can be considered to have been satisfactorily positive in real terms because the subborrowers bear the full foreign

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/1 This system is geared mainly to controlling the spreads earned by the financial institutions, but in practice results in arbitrary differentials in SMIB's onlending rates (at any point in time) which directly reflect the different rates charged by SMIB's various official sources of foreign exchange (e.g., the Bank and ADB). Alternative schemes will be explored by the Bank's forthcoming financial sector review mission to Korea.

/2 Weighted by amounts outstanding at end-1978, but excluding KFX loans which are onlent at a floating rate.

exchange risk.<sup>/1</sup> This level of foreign exchange onlending rates is also in line with those charged by KDB.

### Resources

4.46 Domestic Currency. SMIB's resources position at end-1978 is shown in Annex 5, Table 16. At that date, total domestic currency resources amounted to W 555.8 billion (US\$1.14 billion) of which deposits accounted for 84.8%, while equity and borrowings from Government and BOK accounted for 4.6% and 10.6% respectively. An amount of W 181.9 billion, or 32.7% of SMIB's total domestic currency resources, were long-term, of which savings deposits were the largest component reaching W 118.2 billion. The remaining W 373.9 billion were short-term domestic currency resources, where again the demand and savings deposits were the largest component at W 353.4 billion (or 94% of short-term domestic resources). At end-1978, W 68.4 billion (US\$141.1 million equivalent) of short-term and W 11.8 billion (US\$24.3 million equivalent) of long-term domestic resources were available for commitment.

4.47 Foreign Currency. SMIB was authorized to make foreign exchange loans in 1964. By end-1978, it had mobilized a cumulative total of W 142.8 billion, of which nearly 29% was borrowed from IBRD and a further 35% from ADB. Starting with its first foreign borrowing of \$6.25 million equivalent <sup>/2</sup> from KfW in 1965, SMIB had borrowed a total of W 49.8 billion from KfW, OECF, ADB, USAID and the Exim Bank of Japan by 1973, which represented only 34.8% of total borrowings obtained by end-1978. It is evident that SMIB's foreign currency operations escalated after 1973, with the availability of IBRD and ADB funds. Apart from 'official' foreign exchange funds, SMIB is also an agent for channelling the Government's 'Korea Foreign Exchange' (KFX) funds. The KFX scheme, started in 1976, is sponsored by MOF and funded from the foreign exchange resources of the Central Bank (BOK). These funds are onlent at a floating rate of LIBOR plus 1.5% p.a. SMIB's foreign currency resource position as of end-1978 indicates that only W4.0 billion (US\$8.2 million) was available for commitments, which, based on projections and taking into account foreign exchange funds available from other sources, implies that SMIB's foreign resources will need to be supplemented by late 1979.

### Audit

4.48 Since 1965, SMIB's accounts have been audited by Chong Un Accounting Company, a Korean firm associated with Touche Ross & Co. In 1975 and 1976

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<sup>/1</sup> This cost has been substantial, particularly because of the mix of foreign currencies disbursed, for instance under the IBRD loans, 75% of the amount outstanding of Loan No. 1175-KO at April 30, 1979 was denominated in Deutsche mark (38%), Swiss Francs (22%), and Japanese Yen (15%), and for Loan No. 1507-KO the share of strong currencies was even larger (93%), consisting of Swiss Francs (54%), and Japanese Yen (39%).

<sup>/2</sup> At exchange rate of W 485 = US\$1.

the auditors issued a qualified opinion, pointing out that the employees' retirement liability had been underestimated. This, however, represented a minor qualification and other aspects of SMIB's accounts were found satisfactory. In 1977, SMIB appointed San Kyong & Co. as its auditors, a company acceptable to the Bank. The 1978 audit report found SMIB's accounts satisfactory but repeated the minor qualification relating to the underestimation of employees' retirement liability. This has subsequently been corrected.

#### D. PROSPECTS AND RESOURCE REQUIREMENTS

##### Business Prospects

4.49 The outlook for the Korean economy in general and the manufacturing sector in particular remains favorable;<sup>/1</sup> GNP is expected to increase by 9.2% annually, with a growth rate of 14.2% p.a. in the manufacturing sector. The growth of the economy will continue to be mainly export-led; exports of goods and services are projected to increase 16.8% annually with manufactured exports providing 94% of incremental exports over the period 1977-81 (of which the SMI sector is expected to contribute about 40%, see Annex 5, Table 2). An annual increase in gross fixed investment of 7.8% is required to sustain this rate of GNP growth and manufacturing investment is projected to account for 26.7% of total investment expenditures during the Fourth Plan Period, which represents an increase from its share of 24.6% during 1972-76. The FFYP also emphasized the need for deepening the structure of Korean industries, notably through an increase in the investment share of the machinery industries (together with heavy and chemical industries), for which SMIB has already expanded its financial assistance (para. 4.22).

4.50 In this macro-economic context, and within the limits of its assumed domestic and foreign currency resource availability, SMIB has projected its future operations over 1979-82 <sup>/2</sup> on the basis of detailed and reasonable assumptions.<sup>/3</sup> Total commitments (both equipment and working

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<sup>/1</sup> With respect to most economic indicators, the Korean economy has performed better than expected during 1977-78 and exceeded the Fourth Five Year Plan targets for those years.

<sup>/2</sup> SMIB's operational and financial projections were originally prepared in mid-1978 for the five year period 1978-82. Subsequently the 1978 figures have been converted to "actuals" and hence the projections only cover the four year period 1979-82, which is sufficient for the purpose at hand.

<sup>/3</sup> Of which the more important assumptions are: (i) a steady annual increase of 15% in SMI investment in fixed assets; (ii) an increase in SMIB's equipment loans as a proportion of total SMI investment requirements from 26% in 1977 to 39% and 44% thereafter (this is due to the availability of SMIPF resources); (iii) an increase in foreign exchange operations conservatively estimated at 7.0% p.a.; and (iv) an increase in total deposits of 29% annually with long-term savings deposits reaching 27% of the total, a reflection of SMIB's specific resource mobilization efforts.

capital loans/<sup>1</sup>) are expected to reach W 1,190.0 billion (US\$2.45 billion equivalent) over the four-year period, with foreign loan commitments reaching W 189.8 billion (15.9% of the total) or US\$391.3 million (Annex 5, Table 17). Total disbursements are expected to reach W 1,188.0 billion. Average annual growth rates for total commitments and disbursements are expected to be nearly the same at about 18%. The achievement of these targets will depend not so much on staff capacity or paid-in equity capital, which are expected to be satisfactory and commensurate with SMIB's projected volume of operations, as on SMIB's capacity to mobilize additional resources, particularly on the foreign currency side.

#### Financial Forecasts

4.51 SMIB's financial performance and structure are expected to remain satisfactory over the next four years (Annex 5, Tables 18-20). Net income is projected to grow from W 722 million in 1978 to W 17.3 billion in 1982 (representing 0.1% and 0.9% of average total assets respectively) principally due to an increase in gross spread from 3.5% of average total assets to 4.6% over that period. SMIB's gross income is expected to increase from W 73.2 billion in 1978 of which 77.4% originated from interest on loans, to W 251.2 billion in 1982, of which 87.9% will originate from interest on loans.

4.52 SMIB's total assets are projected to increase from W 733.3 billion in 1978 to W 2,135.5 billion in 1982, an average annual growth of nearly 31%. Over this period, SMIB's total loan portfolio as a proportion of its total assets is expected to increase from 62.3% in 1978 to 67.9% in 1982, while the share of equipment loans will be constant at about 23%. The ratios of financial performance show a satisfactory and improving trend. Due to continued increases in SMIB's equity capital, as projected, the long-term debt/equity ratio will remain below 8.5:1, well within the contractual limit of 10:1. The current ratio is projected to remain above 1:1.

#### Domestic Currency Resource Position and Requirements

4.53 SMIB's resource projections are shown in Annex 5, Table 21. Cumulative domestic currency commitments over the 1979-82 period are expected to reach W 1,000.1 billion, consisting of W 324.2 billion for equipment loans and W 675.9 billion for working capital loans.<sup>2</sup> SMIB plans to raise total new resources of W 1,076.3 billion of which W 338 billion are long-term and the remaining W 738.3 billion short-term.<sup>3</sup> The Government is the largest source of long-term resources, via its subscription to equity capital, the NIF, and the new SMIPF,<sup>3</sup> which will become operational in 1979. The net increase in

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<sup>1</sup> Amounts for working capital loans are on a net basis.

<sup>2</sup> On a net basis for working capital loans.

<sup>3</sup> Small and Medium Industry Promotion Fund (para. 2.15)



deposits, both demand and savings, are the largest source of short-term resources, accounting for 85.2% of the total available, which represents a commendable effort on SMIB's part to mobilize domestic resources.

#### Foreign Currency Resource Requirements

4.54 Annex 5, Table 17 shows that SMIB's cumulative foreign currency commitments are projected at US\$391.3 million between 1979-82. SMIB envisages mobilizing US\$413 million in foreign currency borrowings over the period 1979-82, of which 30% will be from the Bank, 42% from ADB, and the remaining 28% from the Korean Government under the KFX scheme. Being a "small and medium industry" development bank rather than a conventional DFC, and having access to official sources of foreign exchange since only recently, SMIB does not envisage mobilizing foreign commercial resources in the near future. An analysis of the recent growth of foreign loan commitments, notably the rapid increase after 1977, indicates clearly that SMIB's past foreign lending operations and the projections for the future are largely a function of available resources (para. 4.19). The average annual rate of increase of 7.0% for foreign loan commitments between 1979-82 is therefore very conservative relative to potential demand for SMIB's financing, but probably realistic on the basis of resource availability. As a result of this modest foreign resource availability, foreign equipment loan approvals are expected to decline from 42% of SMIB's total equipment lending in 1979 to 33% in 1982.

### 5. THE PROPOSED BANK LOAN

#### Recommendations and Justification

5.01 SMIB's performance continues to be highly satisfactory from both the institutional and developmental points of view. With its operational capability, especially its satisfactory project appraisal and follow-up work, SMIB has been an efficient intermediary for allocating funds to Korea's key industrial sector. In particular, given the functional demarcation between the development finance institutions operating in Korea, SMIB has been the only intermediary channelling Bank funds exclusively to the small and medium industry (SMI) sector. This sector has made significant contributions to the achievement of Korea's economic objectives, particularly that of export-led growth. Specifically, an average of 36% of total commodity exports and 40% of total industrial exports originated in the SMI sector over the last four years, reaching US\$4.6 billion in 1978 (para. 2.03). The SMI sector also accounted for about 45% of employment in the manufacturing sector in 1977, and the subsector has also contributed to the regional dispersal of employment opportunities (paras. 2.05-2.06). Its importance is further emphasized in the current Fourth Five-Year Plan (FFYP), which points to the crucial role to be played by SMIs in deepening the industrial structure and complementing

large-scale manufacturing enterprises through extensive subcontracting arrangements. /1 As of end-1978, total Bank resources of US\$85 million (on a commitment basis) have been made available through SMIB to 334 projects in the SMI manufacturing, transportation and construction industries.

5.02 A Bank loan of US\$60 million is recommended which is expected to finance about 32% of SMIB's estimated foreign currency commitments over the two-year period mid-1979/mid-1981, with the balance to be met by additional borrowings from the ADB and KFX (Annex 5, Table 21). This loan will enhance SMIB's foreign currency resources available for allocation to the SMI sector. SMIB is not expected to be able to mobilize foreign commercial resources in the foreseeable future principally because it is a small and medium industry development bank rather than a conventional DFC and also because it has had access to official sources of foreign exchange since only recently (1976, in the case of the Bank). The mobilization of foreign currency funds from official sources will complement SMIB's own successful efforts at mobilizing domestic currency resources (both short- and long-term; para. 4.40), which it intends to emphasize further in its future operations. /2 Apart from the transfer of resources, the Bank's institution-building impact on SMIB has been substantial. Under the two previous loans, the Bank has persuaded the Government to strengthen SMIB's capital structure (para. 4.41), urged SMIB to formulate and implement short-term development objectives (para. 4.10), improve its economic analysis of projects including the calculation of ERRs for selected projects, carry out SMI-related studies, introduce a systematic project monitoring system, and improve SMIB's financial practices including the establishment of adequate portfolio provisions (para. 4.44). The proposed loan will enable the Bank to continue assisting SMIB in its effort of improving the economic and operational impact of SMIB's lending, by inter alia, urging SMIB to improve on its performance in the geographic dispersal of its loans through stepping up the level of its branch operations /3 and encouraging SMIB to intensify the provision of extension services to SMIs through the new Small and Medium Industry Promotion Corporation (SMIPC), within the framework of the recent legislation on SMI promotion of December 1978 (para. 2.15). In addition, the loan will also enable the Bank to continue assisting small industrial projects in Korea which, due to their size, are not usually financed by the other two intermediaries (KDFC and KDB) assisted by the Bank. An analysis of the 196 subprojects financed

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/1 This is in part aimed at keeping the import-content of Korea's domestic production at an acceptable level.

/2 As specified in the Development Strategy agreed between SMIB and the Bank (Annex 4).

/3 Again specified in the Development Strategy (Annex 4).

under the second Bank loan (Annex 5, Table 9) indicates that this objective has been satisfactorily achieved. SMIB's subborrowers on average had a total asset size of only W 280 million (US\$580,000) and 72 employees. The average size of SMIB's subloans under the second Bank loan was US\$226,300, and the average size of all SMIB's loans, both domestic and foreign, increased only slightly between 1976 and 1978 (para. 4.24), which clearly indicates that SMIB has, as a matter of deliberate policy, given increasing priority to the financial needs of smaller enterprises. Apart from being smaller, SMIB's subprojects have also been more labor-intensive than those financed by the other intermediaries, with a weighted average of fixed investment costs per job of US\$11,130 in 1978. In the light of the current macroeconomic context (para. 4.27) this indicates that SMIB's performance in supporting relatively labor-intensive investment projects has been satisfactory. Comparable figures for KDFC and KDB are considerably higher.<sup>/1</sup> SMIB's subprojects under the second Bank loan are expected to generate about US\$25 million in incremental exports. The FRRs and ERRs, calculated for projects receiving foreign currency loans in excess of US\$0.5 million, had an average FRR of 24.4% and ERR of 51.5% (para. 4.34). These rates of return, when considered together with the favorable employment and export effects of SMIB's subprojects, indicate that the Bank resources made available to SMIB have been allocated to projects which are financially and economically viable. It is expected that the subprojects to be financed under the proposed loan to SMIB will yield similar or greater financial and economic benefits.<sup>/2</sup> Under the second Bank loan, a \$20 million component was included to ensure that SMIB would not neglect the financial requirements of small enterprises relative to those of medium-sized enterprises, and would also finance some labor-intensive subprojects, thereby contributing to employment creation where appropriate. A similar component will be earmarked under the proposed loan (para. 5.03). In summary, the proposed loan will enable the Bank to continue its mutually beneficial relationship with SMIB, which is relatively recent, dating back only to 1975.

#### Main Features of the Loan

5.03 Component for financing small, labor-intensive projects. SMIB has made a deliberate effort under the second Bank loan to assist small entrepreneurs and relatively labor-intensive projects. The results have been satisfactory (paras. 4.34-4.35). It is important that under the proposed loan SMIB should continue its efforts to reach smaller enterprises (in terms of

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<sup>/1</sup> For example, in 1977 the average size of KDFC's subloans was US\$1.1 million and its average fixed investment cost per job was US\$24,500. KDB's subprojects are generally comparable to, or larger than, KDFC's.

<sup>/2</sup> In particular, it is expected that the estimated 260 subprojects under the proposed loan will directly create about 7,750 incremental jobs, based on projections of expected fixed investment cost and taking into account the proposed component (para. 5.03).

total assets) and projects with a capital/labor ratio which is appropriate in the prevailing macroeconomic conditions (para. 4.27) and in harmony with Korea's employment objectives. It is therefore recommended that a component of US\$25 million (or 42% of the proposed loan amount) be earmarked for financing specifically: (a) enterprises with fixed assets not exceeding US\$300,000;<sup>/1</sup> or (b) projects generating employment at a fixed investment cost per job not greater than US\$8,500. The proposed US\$300,000 (equivalent to W 145.5 million) fixed asset ceiling is well within the W 500 million (US\$1 million) total asset limit under Korea's official definition of small and medium industries. It is also in line with the US\$250,000 limit on fixed assets suggested in the Bank report "Employment Creation and Small-Scale Enterprise Development" (March 1977) adjusted for subsequent inflation. The proposed US\$8,500 limit on fixed investment cost per job appears appropriate, indeed on the low side, considering the increasing scarcity of labor, the structural shift of industry towards the high priority but more capital-intensive subsectors, and also the fact that SMIB's commitments under the proposed loan will take place mostly in 1980 so that an inflation factor must be taken into account. Apart from its employment creation objectives, this limit on fixed investment cost per job should again serve (as under the second Bank loan) to explicitly focus SMIB's appraisal analysis on the appropriateness of the capital/labor balance in its subprojects. Based on an analysis of available data on recent subprojects, SMIB is expected, with a reasonable but not excessive effort on its part, to be able to utilize fully the special component as described above.

5.04 Financing of foreign exchange component of domestic equipment. Apart from direct imports, it is recommended that SMIB be authorized to use the proceeds of the proposed loan to finance the foreign exchange component of domestically manufactured or procured capital goods, estimated at 60% of their total cost.<sup>/2</sup> About 6% (or US\$2.7 million) of the second Bank loan had been utilized in this manner by end-1978. The continuation of this authority under the proposed loan should increase SMIB's potential for financing smaller projects as these often require domestically produced rather than imported capital goods, and it will also enhance SMIB's current efforts to intensify its assistance to SMI machinery industries (para. 4.31).

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<sup>/1</sup> At time of loan application to SMIB.

<sup>/2</sup> An updating survey of 29 SMI enterprises undertaken by SMIB in November 1978 indicated that an average of 60% was still applicable over a wide range of manufacturing industries.

5.05 Free limit. It is recommended that the free limit of US\$0.5 million, which was set under the two previous Bank loans, be maintained. The maintenance of this free limit does not imply any dissatisfaction with SMIB's project appraisal work which remains satisfactory. Instead it is a reflection of the basically unchanged size distribution of SMIB's subloans, most of which have remained well below US\$0.5 million. Under the proposed free limit it is estimated that about ten to twelve subprojects accounting for approximately 15% of the total loan amount would still require Bank review prior to approval.

5.06 Ceiling on subloans and size of subborrowers. Under the second Bank loan the limits on individual subloans and on total assets of eligible subborrowers were increased to respectively US\$1.5 million and W 1 billion in recognition of the increased size of industrial projects in Korea and of a Government decision to raise the total asset limit for borrowers eligible for SMIB's foreign exchange financing. These limits are still considered appropriate and it is recommended that they be maintained under the proposed loan.

5.07 Debt/equity limit. Under the first Bank loan a limit of ten times its equity was set on SMIB's long-term debt (with all government loans and all deposits with maturity exceeding one year to be included in debt). Furthermore, the Government undertook specifically (as recorded in the Guarantee Agreement) to provide SMIB with additional equity capital as needed in future to enable SMIB to keep its debt/equity ratio within the 10:1 limit. The same limit was maintained under the second Bank loan. It is recommended that this debt/equity limit of 10:1 be maintained under the proposed loan and that the Government's undertaking as described above be recorded again in the Guarantee Agreement.

5.08 Relending rate. SMIB intends to onlend the proceeds of the proposed Bank loan at an interest rate of 2 percentage points above its own borrowing rate (i.e. 9.9% p.a. assuming a Bank lending rate of 7.9% p.a.). This spread of 2 percentage points is adequate to cover the cost incurred by SMIB in processing foreign currency loans and is in line with the general practice of government-owned development finance institutions in Korea in relending the proceeds of their borrowings from institutional sources (IBRD, ADB et al.)/1 Provided that the rate of inflation is maintained within 7% p.a. as projected in the Fourth Plan, SMIB's onlending rates would represent positive real rates of interest. However, should the inflation rate exceed

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/1 At any point in time, this practice results in arbitrary differentials in SMIB's onlending rates which merely reflect the different rates charged by SMIB's various official sources of foreign exchange (para. 4.45). This matter will be reviewed with the Korean authorities in the context of the forthcoming Bank financial sector review mission scheduled for FY80.

Fourth Plan projections,<sup>/1</sup> the lending rate would still be appropriate considering that the subborrowers bear the full foreign exchange risk.

5.09 Amortization schedule. As is usual with Bank loans to DFCs, the proposed loan would have a flexible amortization schedule which would substantially reflect the aggregate of the repayment schedules of the individual subloans made by SMIB. The loan is expected to be fully repaid within 17 years including a grace period of 3 years. The estimated disbursement schedule is presented in Annex 5, Table 22.

Agreements and Understandings Reached at Negotiations

5.10 During loan negotiations the Bank reached agreement with:

- (a) the Government to the effect that it will continue to provide SMIB with additional equity capital as needed in the future to maintain SMIB's long-term debt/equity ratio within the 10:1 limit;
- (b) SMIB on:
  - (i) a component of US\$25 million under the proposed loan for financing enterprises with fixed assets not exceeding US\$300,000 <sup>/2</sup> or projects that would create additional employment at a fixed investment cost per job not exceeding US\$8,500 (para. 5.03);
  - (ii) the maintenance of the long-term debt/equity limit at 10:1 (para. 5.07);
  - (iii) the financing of 60% of the cost of domestically procured capital goods representing the estimated foreign exchange component of such goods (para. 5.04);
  - (iv) the maintenance of a subproject free limit of US\$0.5 million (para. 5.05); and
  - (v) the maintenance of a US\$1.5 million ceiling on the size of individual subloans and a limit of W 1 billion on the total asset size of eligible borrowers (para. 5.06).

5.11 In addition the Bank reviewed and reached understandings with SMIB on the objectives outlined by SMIB in its Statement of Development Strategy for 1979/80 (Annex 4).

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<sup>/1</sup> The latest projected estimate is 9% for the next few years.

<sup>/2</sup> At time of loan application to SMIB.

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Board of Policy

(As of December 31, 1978)

Nam, Sang Jin	-	President of the Small and Medium Industry Bank
Ha, Dong Sun	-	Director, Finance Bureau, Ministry of Finance (nominated by the Minister of Finance)
Han, Jae Yul	-	Director, Bureau of Small and Medium Industry, Ministry of Commerce and Industry (nominated by the Minister of Commerce and Industry)
Cho, Chun Shik	-	Assistant Governor, The Bank of Korea (nominated by the Governor of the Bank of Korea)
Kim, Bong Jae	-	Chairman, National Federation of Small and Medium Industry Cooperatives
Choi, Ik Sung	-	Director, National Federation of Small and Medium Industry Cooperatives (Representative of Small Entrepreneurs)
Lee, Kwan Soo	-	Chief of Directorate, Korea Stationery Industry Cooperative (Representative of Small Entrepreneurs)

AEP Projects Department  
April 30, 1979

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Board of Directors  
(As of December 31 1978)

Name	Position	Background
Nam, Sang Jin	President	Appointed May 12, 1976. Previously Vice Minister, Ministry of Finance
Park, Sung Sang	Deputy President	Appointed November 18, 1976. Previously Assistant Governor, The Bank of Korea
Kim, Jae Sup	Director	Previous commercial banking background. Joined SMIB In 1961. Appointed director in 1974. Reappointed in February 1977.
Choi, Heung Sik	Director	Previous commercial banking background. Joined SMIB in 1961. Appointed Director in 1974. Reappointed in February 1977.
Park, Chu Hee	Director	Previous commercial banking background. Joined SMIB in 1961. Appointed Director in April 1975. Reappointed in April 1978.
Park, Jang Shur	Director	Previous commercial banking background. Joined SMIB in 1961. Appointed Director in April 1975. Reappointed in April 1978.
Choo, Yil	Director	Previous commercial banking background. Joined SMIB in 1961. Previously Director, Korea Credit Guarantee Fund. Appointed Director in April 1978.

AEP Projects Department  
April 30, 1979



KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Policy Statement

(Adopted by Board of Policy on November 13, 1969  
and Amended on May 30, 1974)

I. Economic Role

SMIB shall assist in the economic development of Korea in conformity with its purposes as stated in the Small and Medium Industry Bank Act and By-Laws and in accordance with the Government's plans, policies and priorities. In order to accomplish this objective, SMIB will promote the development of privately controlled medium and small enterprises (as defined from time to time by the Government of the Republic of Korea) in the country by (i) providing various types of financial assistance to them in the form of short-term credits for working capital purposes, medium- and long-term loans, equity participation, guarantees and underwritings; (ii) providing technical and managerial consulting services; and (iii) undertaking promotional activities in the identification and development of new projects. The term "privately-controlled" enterprises will be taken to mean enterprises which are privately operated and managed and in which the controlling interest is held by private investors. The mere fact that such enterprises have secured loans from government financial institutions, or that the Government holds a minority equity position will not exclude such enterprises from receiving financial assistance from SMIB.

II. Development Policies

In extending its assistance SMIB will give preference to enterprises which will effectively contribute to broadening the base of the national economy and improving the balance of payments. Priority will be given to:

- (a) export industries as designated by the Government;
- (b) import-substitution industries and industries producing raw materials necessary for export and import-substitution industries;
- (c) specialized industries or industries ancillary to large firms and machinery industries;
- (d) industries with potential for exports or import-substitution;
- (e) industries which will develop new products; and
- (f) indigenous industries and industries which make use of labor-intensive technologies.

### III. General Policies and Procedures

- (a) SMIB will carry out its operations in accordance with sound management and business principles and practices. It will increase its operations in the field of development finance.
- (b) SMIB will extend financial assistance only for projects which appear viable from economic, technical and financial points of view. SMIB will pay special attention to the quality of the management of the enterprise and to the market prospects of the project.
- (c) SMIB may assist applicants in the preparation of project applications and feasibility studies.
- (d) SMIB will require eligible borrowers to finance a reasonable portion of the total project cost from their own resources to ensure that they have a reasonable stake in the projects financed by SMIB.
- (e) Borrowers must not be in arrears in the repayment of either principal or interest on any existing loan.
- (f) For the projects assisted by it, SMIB will ensure availability of all financial requirements, including working capital, for the successful implementation of the project.
- (g) SMIB will appropriately supervise the use of its funds, the progress of the project financed and the performance of the enterprise so as to ensure that remedial action is taken when problems arise. Whenever necessary, SMIB will endeavor to provide the necessary technical services to such enterprises.
- (h) SMIB will determine the repayment period of loans, including grace period, in accordance with the nature and the individual circumstances of the project.

### IV. Financial Guidelines

- (a) SMIB will finance its medium- and long-term operations from its long-term resources and it shall endeavor to diversify its investments in terms of the type of industries, the location of such industries and the type of financing.
- (b) SMIB will not seek to control any of the enterprises in which it has invested nor will it participate in the management of such enterprises except for the purpose of safeguarding its interest.

- (c) In accordance with sound banking practices, SMIB will secure its loans and guarantees with appropriate collateral from its client; but SMIB will have due regard to its developmental functions in the Korean economy. In making investments in equity participations and in underwriting stocks and debentures of its clients, SMIB will be guided by considerations of technical feasibility, financial viability and economic justification of the projects and enterprises so assisted.
- (d) SMIB will not subscribe to stocks in excess of its unimpaired paid-up capital, legal reserves and surplus. As a rule, SMIB's equity participation in any single enterprise shall not exceed 25% of paid-in capital stock of an enterprise. SMIB's equity investment shall serve mainly as a catalytic agent for the establishment of new enterprises and SMIB will endeavor to dispose of such equity investments as soon as this becomes feasible at a fair price.
- (e) SMIB's total commitments in any one single enterprise in whatever form, i.e. loans, equity participation, guarantees or a combination thereof, will normally not exceed 25% of the sum of its unimpaired paid-in capital, legal reserves and surplus.
- (f) In general, SMIB's total commitments in any one single enterprise will not exceed 60% of the total assets of the enterprise including SMIB's own investments. Exceptions to the above may be made in respect to SMIB's financing of small and medium industry cooperatives, local governments and nonprofit seeking corporations.

#### V. Accounting

- (a) SMIB will maintain accounting records adequate to reflect its business operations and affairs in accordance with generally accepted accounting principles and standards.
- (b) SMIB will engage a qualified and independent public accountant to audit its books and financial statements every year.

#### VI. Provisions and Reserves

- (a) SMIB will annually make appropriate allocations to a provision for the protection against bad debts and investments until such provision equals 10% of SMIB's portfolio.
- (b) SMIB will allocate at least 25% of its annual net profits to a reserve fund until such a reserve fund reaches a sum equal to its paid-up capital.

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Outline of Development Strategy for 1980/81 /1

In parallel with the projected expansion of its financing operations in the two-year period 1980/81, SMIB will endeavor to enhance its impact on the Small and Medium Industry sector through the implementation of the developmental objectives outlined below.

- (a) It is SMIB's policy and intention, apart from financing medium-sized enterprises (as presently defined) to make special efforts to seek out and assist an increasing number of small enterprises (in terms of total assets) and relatively labor-intensive projects (in terms of the capital:labor ratio). This emphasis on financing small, relatively labor-intensive projects will apply to the use by SMIB of IBRD resources as well as its other resources.
- (b) SMIB will endeavour to increase the mobilization of household and storeholder savings, particularly emphasizing relatively long-term deposits, in an effort to augment its domestic currency resources. This is intended to be in part achieved by expanding its branch network.
- (c) SMIB will continue to gradually increase the proportion of its financing to areas outside metropolitan Seoul and Busan in an effort to promote a more even distribution of industry and employment opportunities in Korea. SMIB will endeavour to reduce the proportion of Seoul and Busan to about 45% for the 1980/81 period.
- (d) SMIB will actively assist the small and medium-sized enterprises in the machinery subsector which has been specified as a high priority subsector by the Government in the Fourth Five-Year Plan.
- (e) In connection with (d) and (a), and in an effort to deepen the industrial structure in Korea, SMIB will, where appropriate, actively encourage and promote subcontracting arrangements.
- (f) SMIB will continue to give high priority in its financial and technical assistance to small rural industries within the Saemaeul Program.
- (g) SMIB will strengthen its research activities, with particular emphasis on sector and market studies for small and medium-sized industries, and will consistently apply the findings of these studies in its operations.

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/1 The previous Development Strategy agreed between the Bank and SMIB covered the two-year period 1978/79.

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Related Documents Available in the Project File

A. General Reports and Studies on the Sector

- A.1 National Income in Korea. The Bank of Korea, 1976.
- A.2 Report on Mining and Manufacturing Survey. Economic Planning Board, 1977.
- A.3 Study on the Status of Small and Medium Industries, Small and Medium Industry Bank, 1976.
- A.4 Monthly Statistics on Small Industries, Small and Medium Industry Bank (end-1978, latest).
- A.5 General Status of Small Business in Korea. Korea Federation of Small Business, 1977.

B. Reports and Studies Relating to the Project

- B.1 The Small and Medium Industry Bank Act, July 1, 1961.
- B.2 Presidential Decree of August 1, 1961 and amendments, relating to the execution of the Small and Medium Industry Bank Act.
- B.3 Small and Medium Industry Bank, Annual Reports, 1975-1978.
- B.4 Small and Medium Industry Bank. Audited Financial Statements, 1974-1978.

C. Selected Working Papers

- C.1 Data on SMIB Subproject Monitoring System.
- C.2 Foreign exchange component of domestically manufactured investment goods.
- C.3 Small and Medium Industry Promotion Law November 1978.

AEP Project Department  
April 30, 1979

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Role of SMI in the Manufacturing Sector

Year	No. of establishments			No. of employees			Value added (W billion)			Value added per employee (W'000)			Output (W billion)			Fixed asset investment (W billion)		
	Large	SMI	% /a	Large	SMI	% /a	Large	SMI	% /a	Large	SMI	% /b	Large	SMI	% /a	Large	SMI	% /a
1968	554	23,255	97.7	343,401	404,906	54.1	194	107	35.5	565	264	46.7	494	275	35.8	50	22	30.6
1972	833	22,896	96.5	532,629	440,786	45.3	648	251	27.9	1,217	569	46.8	1,702	540	24.1	200	55	21.6
1975/c	1,349	21,438	94.1	885,807	534,337	37.6	2,112	716	25.3	2,384	1,340	56.2	6,200	1,970	24.1	708	130	15.5
	(873)	(21,914)	(96.2)	(771,078)	(648,955)	(45.7)	(1,930)	(896)	(31.7)	(2,503)	(1,381)	(55.2)	(5,664)	(2,509)	(30.7)	(672)	(167)	(19.9)
1976/c	1,483	23,474	94.1	1,071,610	645,698	37.6	3,108	967	23.7	2,900	1,498	51.6	9,047	2,630	22.5	871	247	22.1
	(1,023)	(23,928)	(95.9)	(959,221)	(756,738)	(44.1)	(2,851)	(1,222)	(30.0)	(2,972)	(1,615)	(54.3)	(8,231)	(3,444)	(29.5)	(865)	(296)	(25.5)
1977/c	1,747	24,927	93.5	1,197,096	720,231	37.6	4,074	1,417	25.8	3,403	1,967	57.8	11,792	3,629	23.5	n.a.	n.a.	n.a.
	/d(1,084)	(25,589)	(95.9)	(1,035,348)	(881,979)	(46.0)	(3,682)	(1,809)	(32.9)	(3,556)	(2,051)	(57.7)	(10,720)	(4,701)	(30.5)	n.a.	n.a.	n.a.

/a SMI share expressed as percentage of total.

/b SMI level of value added per employee expressed as percentage of level in large enterprises.

/c Figures in brackets apply to new definition of SMI enterprises, i.e., those employing up to 300 employees (other figures based on old definition of up to 200 employees).

/d Preliminary estimates.

AEP Projects Department  
April 30, 1979

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

SMI Exports and SMIB's Assistance

A. Small and Medium Industry Exports /a

	Total commodity exports (A) (\$ million)	Exports of industrial products (B) (\$ million)	Exports of products by small and medium industries (C) /b (\$ million)	C/A (%)	C/B (%)
1970	1,004	839	323	32.2	38.5
1971	1,352	1,163	449	33.2	38.6
1972	1,807	1,584	653	36.1	41.2
1973	3,257	2,873	1,214	37.3	42.2
1974	4,713	4,253	1,640	34.8	38.6
1975	5,427	4,791	1,871	34.5	39.1
1976	8,115	7,283	2,924	36.0	40.1
1977	10,474	9,410	3,654	34.9	38.8
1978	12,711	11,420	4,621	36.4	40.5

B. Degree of Export Orientation of SMIB's Foreign Currency Loan Projects /c  
(on an approval basis)

Degree of export orientation /d	1977			1978		
	No. of projects	Loan amount (US\$ '000)	%	No. of projects	Loan amount (US\$ '000)	%
<b>Export Oriented Industries</b>						
Over 75%	3	1,025	3.0	25	7,686	14.0
50% - 75%	7	1,505	4.5	9	2,265	4.2
25% - 50%	4	853	2.5	9	2,178	4.0
10% - 25%	6	2,347	7.0	12	2,489	4.5
Up to 10%	2	557	1.7	1	59	0.1
Subtotal	22	6,287	18.7	56	14,677	26.8
Domestic Market Industries	118	27,360	81.3	152	40,166	73.2
<u>Total</u>	<u>140</u>	<u>33,647</u>	<u>100.0</u>	<u>208</u>	<u>54,843</u>	<u>100.0</u>

/a Source: Korea Federation of Small Business.

/b Represent exports made by the members of the small and medium industry cooperatives.

/c Exclusive of KFX fund projects.

/d Percentage of export sales out of total incremental sales (appraisal estimates).

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Staff Position and Projected Requirements

Category of Staff	Actual			Projected			
	1976	1977	1978	1979	1980	1981	1982
Financial Analysts	375	379	391	408	423	438	443
Economists	103	113	125	135	150	160	165
Engineers	45	48	48	48	50	55	55
Bankers	157	150	201	241	274	280	300
Lawyers	120	125	137	147	157	170	175
Accountants	7	7	7	7	7	7	7
Others	41	43	52	55	60	61	61
Subtotal	<u>848</u>	<u>865</u>	<u>961</u>	<u>1,041</u>	<u>1,121</u>	<u>1,171</u>	<u>1,206</u>
Staff other than officer	2,172	2,341	2,486	2,689	2,839	2,999	3,114
Labor and others	527	550	585	600	620	610	610
<u>Total</u>	<u>3,547</u>	<u>3,756</u>	<u>4,032</u>	<u>4,330</u>	<u>4,580</u>	<u>4,780</u>	<u>4,930</u>

AEP Projects Department  
April 30, 1979



KOREA  
THE SMALL AND MEDIUM INDUSTRY BANK

Summary of Loan Operations, 1974-1978  
(In W million)

	1974		1975		1976		1977		1978	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
<b>Approvals</b>										
Equipment loans										
Domestic currency	461	10,015	337	7,295	1,241	18,755	1,717	21,663	2,451	42,638
Foreign currency /a	95	9,322	136	12,369	167	13,533	379	23,991	375	36,498
<b>Total Equipment Loans</b>	<b>556</b>	<b>19,337</b>	<b>473</b>	<b>19,664</b>	<b>1,408</b>	<b>32,288</b>	<b>2,096</b>	<b>45,654</b>	<b>2,826</b>	<b>79,136</b>
Working capital loans	198,741	610,259	264,641	843,301	190,062	1,174,228	240,657	1,544,177	329,318	2,222,772
(Net Working Capital Loans) /b		(30,928)		(23,859)		(25,240)		(47,791)		(71,786)
<b>Total Approvals</b>	<b>199,297</b>	<b>629,596</b>	<b>265,114</b>	<b>862,965</b>	<b>191,470</b>	<b>1,206,516</b>	<b>242,753</b>	<b>1,589,831</b>	<b>332,144</b>	<b>2,301,908</b>
<b>Commitments</b>										
Equipment loans										
Domestic currency	461	10,015	337	7,295	1,241	18,755	1,717	21,663	2,415	42,638
Foreign currency /a	98	9,623	105	10,109	171	13,589	349	21,326	438	39,229
<b>Total Equipment Loans</b>	<b>559</b>	<b>19,638</b>	<b>442</b>	<b>17,404</b>	<b>1,412</b>	<b>32,344</b>	<b>2,066</b>	<b>42,989</b>	<b>2,889</b>	<b>81,867</b>
Working Capital Loans	198,741	610,259	264,641	843,301	190,062	1,174,228	240,657	1,544,177	329,318	2,222,772
<b>Total Commitments</b>	<b>199,300</b>	<b>629,897</b>	<b>265,083</b>	<b>860,705</b>	<b>191,474</b>	<b>1,206,572</b>	<b>242,723</b>	<b>1,587,166</b>	<b>332,207</b>	<b>2,304,639</b>
<b>Disbursements /d</b>										
Equipment loans										
Domestic currency	-	9,310	-	8,000	-	18,755	-	21,633	-	42,638
Foreign currency /a	-	11,726	-	10,506	-	13,777	-	21,618	-	42,554
<b>Total Equipment Loans</b>	<b>-</b>	<b>21,036</b>	<b>-</b>	<b>18,506</b>	<b>-</b>	<b>32,532</b>	<b>-</b>	<b>43,281</b>	<b>-</b>	<b>85,192</b>
Working Capital Loans /c	-	609,209	-	844,351	-	1,174,228	-	1,544,177	-	2,222,772
<b>Total Disbursements</b>	<b>-</b>	<b>630,245</b>	<b>-</b>	<b>862,857</b>	<b>-</b>	<b>1,206,760</b>	<b>-</b>	<b>1,587,458</b>	<b>-</b>	<b>2,307,964</b>
<b>Repayments /d</b>										
Equipment loans										
Domestic currency	-	4,032	-	4,184	-	11,632	-	10,235	-	14,884
Foreign currency /a	-	2,199	-	3,647	-	4,303	-	6,149	-	8,280
<b>Total Equipment Loans</b>	<b>-</b>	<b>6,231</b>	<b>-</b>	<b>7,831</b>	<b>-</b>	<b>15,935</b>	<b>-</b>	<b>16,384</b>	<b>-</b>	<b>23,164</b>
Working Capital Loans	-	578,281	-	820,492	-	1,148,988	-	1,496,386	-	2,150,986
<b>Total Repayments</b>	<b>-</b>	<b>584,512</b>	<b>-</b>	<b>828,323</b>	<b>-</b>	<b>1,164,923</b>	<b>-</b>	<b>1,512,770</b>	<b>-</b>	<b>2,174,150</b>
<b>Loans Outstanding</b>										
Equipment loans										
Domestic currency	1,919	22,490	2,139	26,306	2,364	33,429	2,842	44,857	3,538	72,610
Foreign currency /a	529	26,530	636	33,389	745	42,863	1,065	58,332	1,463	101,163
<b>Total Equipment Loans</b>	<b>2,448</b>	<b>49,020</b>	<b>2,775</b>	<b>59,695</b>	<b>3,109</b>	<b>76,292</b>	<b>3,907</b>	<b>103,189</b>	<b>5,001</b>	<b>173,773</b>
Working capital loans /c	34,638	108,811	36,803	132,670	36,207	157,910	37,838	205,701	42,679	283,094
<b>Total Loans Outstanding</b>	<b>37,086</b>	<b>157,831</b>	<b>39,578</b>	<b>192,365</b>	<b>39,316</b>	<b>234,202</b>	<b>41,745</b>	<b>308,890</b>	<b>47,680</b>	<b>456,867</b>

/a All Won equivalent foreign currency figures are based on the actual exchange rates between the Won and the mix of foreign currencies disbursed (for the US\$ this was \$1 = W 485 throughout), or in the case of repayments, the particular mix of foreign currencies actually repaid, in any given year.

/b Disbursements less Repayments.

/c Breakdown of working capital loans disbursed and outstanding:

	Discounting		Overdrafts		General working capital loans		Total	
	Disbursed	Outstanding	Disbursed	Outstanding	Disbursed	Outstanding	Disbursed	Outstanding
1974	19,723	4,032	260,144	4,964	329,342	99,815	609,209	108,811
1975	42,002	9,839	425,290	6,463	377,059	116,368	844,351	132,670
1976	74,284	14,199	642,115	9,945	457,829	133,766	1,174,228	157,910
1977	107,521	19,262	801,669	13,740	634,987	172,699	1,544,177	205,701
1978	143,807	31,223	1,286,849	13,443	792,116	238,428	2,222,772	283,094

/d Provisional figures for 1978.

KOREA  
THE SMALL AND MEDIUM INDUSTRY BANK

Characteristics of Term Loans Committed; 1976-78  
(Won in million)

	1976						1977						1978					
	Local currency			Foreign currency			Local currency			Foreign currency			Local currency			Foreign currency		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
<b>A. Nature of Projects</b>																		
New	142	2,177	11.6	36	3,564	26.2	307	3,135	14.5	69	4,925	23.1	424	6,985	16.4	85	8,376	21.4
Existing	1,099	16,578	88.4	135	10,025	73.8	1,410	18,528	85.5	280	16,401	76.9	2,027	35,653	83.6	353	30,853	78.6
<b>Total</b>	<b>1,241</b>	<b>18,755</b>	<b>100.0</b>	<b>171</b>	<b>13,589</b>	<b>100.0</b>	<b>1,717</b>	<b>21,663</b>	<b>100.0</b>	<b>349</b>	<b>21,326</b>	<b>100.0</b>	<b>2,451</b>	<b>42,638</b>	<b>100.0</b>	<b>438</b>	<b>39,229</b>	<b>100.0</b>
<b>B. Sectoral Distribution</b>																		
<b>Manufacturing</b>																		
Food and Beverage	46	619	3.3	2	310	2.3	11	129	0.6	9	354	1.7	68	988	2.3	9	342	0.9
Textile, Wearing Apparel and Leather	339	7,055	37.6	80	7,292	53.7	457	6,381	29.5	85	5,689	26.7	579	11,946	28.0	99	7,619	19.4
Wood and Wood Products	24	246	1.3	2	32	0.2	72	678	3.1	-	-	-	194	2,611	6.1	6	362	0.9
Paper, Paper Products and Printing	58	665	3.5	14	917	6.7	-	-	-	21	2,278	10.7	49	822	1.9	26	4,257	10.9
Chemicals, Petroleum, Coal, Rubber and Plastic	176	2,033	10.8	15	744	5.4	287	5,045	23.3	45	1,322	6.2	381	6,243	14.6	53	4,786	12.2
Non-Metallic Mineral Products	67	480	2.6	2	259	1.9	122	1,400	6.5	13	810	3.8	177	2,276	5.3	11	986	2.5
Basic Metals	67	888	4.8	3	176	1.3	89	747	3.4	3	315	1.5	189	2,847	6.8	6	832	2.1
Metal Products, Machinery and Equipment	389	5,910	31.5	42	3,328	24.5	538	7,145	33.0	126	8,774	41.1	773	14,212	33.4	162	12,984	33.1
Others	69	806	4.3	7	271	2.1	137	108	0.5	39	1,192	5.6	38	631	1.5	13	685	1.7
<b>Total Manufacturing</b>	<b>1,235</b>	<b>18,702</b>	<b>99.7</b>	<b>167</b>	<b>13,329</b>	<b>98.1</b>	<b>1,713</b>	<b>21,633</b>	<b>99.9</b>	<b>341</b>	<b>20,734</b>	<b>97.3</b>	<b>2,448</b>	<b>42,576</b>	<b>99.9</b>	<b>385</b>	<b>32,853</b>	<b>83.7</b>
Mining	4	36	0.2	-	-	-	4	30	0.1	-	-	-	3	62	0.1	2	110	0.3
Construction	-	-	-	-	-	-	-	-	-	4	283	1.3	-	-	-	43	5,017	12.8
Transportation	2	17	0.1	1	82	0.6	-	-	-	2	291	1.3	-	-	-	3	398	1.0
Service and Commerce	-	-	-	3	178	1.3	-	-	-	2	18	0.1	-	-	-	5	851	2.2
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,241</b>	<b>18,755</b>	<b>100.0</b>	<b>171</b>	<b>13,589</b>	<b>100.0</b>	<b>1,717</b>	<b>21,663</b>	<b>100.0</b>	<b>349</b>	<b>21,326</b>	<b>100.0</b>	<b>2,451</b>	<b>42,638</b>	<b>100.0</b>	<b>438</b>	<b>39,229</b>	<b>100.0</b>
<b>C. Geographical Distribution</b>																		
Seoul City	325	5,872	31.3	45	4,610	33.9	360	7,093	32.7	157	7,719	36.2	736	12,705	29.8	185	14,082	35.9
Kyung-gi Province	202	3,865	20.6	54	2,715	20.0	274	3,982	18.4	50	3,710	17.4	432	7,412	17.4	81	6,999	17.8
South Chungchung Province	71	903	4.8	6	179	1.3	120	1,668	7.7	17	490	2.3	147	2,801	6.6	23	3,225	8.3
North Chungchung Province	40	415	2.2	3	417	3.0	61	325	1.5	5	661	3.1	23	385	0.9	12	1,372	3.5
Kang Won Province	18	255	1.4	3	83	0.6	31	234	1.1	-	-	-	18	360	0.8	4	98	0.2
South Jeon Ra Province	80	836	4.5	8	830	6.1	123	1,114	5.1	8	1,834	8.6	81	1,586	3.7	18	1,637	4.2
North Jeon Ra Province	49	748	4.0	5	580	4.3	61	1,199	5.5	14	555	2.6	75	1,075	2.5	4	123	0.3
South Kyungsang Province	48	934	5.0	9	226	1.7	63	1,110	5.1	21	2,048	9.6	83	1,770	4.2	18	2,650	6.8
North Kyungsang Province	177	2,598	13.8	22	2,889	21.3	319	2,699	12.5	34	2,111	9.9	425	6,687	15.7	31	3,705	9.4
Pusan City	205	2,065	11.0	16	1,060	7.8	258	1,979	9.2	43	2,198	10.3	423	7,712	18.1	62	5,338	13.6
Cheju Province	26	264	1.4	-	-	-	47	260	1.2	-	-	-	8	74	0.3	-	-	-
<b>Total</b>	<b>1,241</b>	<b>18,755</b>	<b>100.0</b>	<b>171</b>	<b>13,589</b>	<b>100.0</b>	<b>1,717</b>	<b>21,663</b>	<b>100.0</b>	<b>349</b>	<b>21,326</b>	<b>100.0</b>	<b>2,451</b>	<b>42,638</b>	<b>100.0</b>	<b>438</b>	<b>39,229</b>	<b>100.0</b>

	1976						1977						1978					
	Local currency			Foreign currency			Local currency			Foreign currency			Local currency			Foreign currency		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
<b>D. Size of Loans</b>																		
Up to Won 1 M	14	7	-	-	-	-	28	11	0.1	-	-	-	6	5	-	-	-	-
Won 1 M to Won 10 M	366	2,870	15.3	3	27	0.2	753	3,127	14.4	30	133	0.6	973	5,740	13.5	13	89	0.2
Won 10 M to Won 30 M	745	7,534	40.2	25	734	5.4	748	9,726	44.9	74	1,430	6.7	1,127	17,079	40.1	94	2,193	5.6
Won 30 M to Won 50 M	64	2,992	16.0	33	1,438	10.6	102	3,143	14.5	74	3,631	17.0	203	9,036	21.2	78	3,547	9.1
Won 50 M to Won 100 M	42	3,958	21.1	58	5,325	39.2	68	3,779	17.4	78	6,324	29.7	101	5,777	13.5	117	9,739	24.8
Won 100 M to Won 150 M	7	842	4.5	49	5,312	39.1	18	1,877	8.7	91	9,452	44.3	34	3,688	8.6	87	11,195	28.6
Won 150 M to Won 300 M	3	552	2.9	3	753	5.5	-	-	-	2	356	1.7	7	1,313	3.1	43	9,950	25.3
Over W 300 M	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6	2,516	6.4
Total	1,241	18,755	100.0	171	13,589	100.0	1,717	21,663	100.0	349	21,326	100.0	2,451	42,638	100.0	438	39,229	100.0
<b>E. Duration of Loans</b>																		
Up to 1 year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Over 1 year up to 3 years	63	629	3.4	-	-	-	88	536	2.5	10	97	0.5	121	1,796	4.2	8	64	0.2
Over 3 years up to 5 years	392	5,901	31.5	13	847	6.2	906	12,074	55.7	96	4,850	22.7	1,018	15,803	37.1	150	9,019	23.0
Over 5 years up to 7 years	471	6,885	36.7	65	7,342	54.0	387	5,030	23.2	62	3,573	16.8	701	12,894	30.2	115	8,809	22.5
Over 7 years up to 10 years	315	5,340	28.4	87	5,060	37.2	336	4,023	18.6	122	7,824	36.7	611	12,145	28.5	131	12,880	32.8
Over 10 years up to 15 years	-	-	-	6	340	2.6	-	-	-	59	4,982	23.3	-	-	-	34	8,457	21.5
Total	1,241	18,755	100.0	171	13,589	100.0	1,717	21,663	100.0	349	21,326	100.0	2,451	42,638	100.0	438	39,229	100.0
<b>F. Subborrower Asset</b>																		
(Total) Size /a																		
Up to Won 10 M													2	20	-	2	49	0.1
Won 10 M to Won 30 M													359	4,529	10.6	22	1,508	3.8
Won 30 M to Won 50 M													440	6,191	14.5	26	2,268	6.7
Won 50 M to Won 100 M													684	11,039	25.9	75	5,350	13.5
Won 100 M to Won 300 M													667	13,121	30.8	132	9,740	24.6
Won 300 M to Won 500 M													234	5,542	13.0	111	11,545	29.2
Over Won 500 M													65	2,196	5.2	70	8,769	22.1
Total													2,451	42,638	100.0	438	39,229	100.0
<b>G. Subborrower Employment</b>																		
Size /a																		
Up to 50 workers	212	3,521	18.8	34	2,485	18.3	271	3,377	15.6	69	3,820	17.9	429	6,810	16.1	124	11,135	28.3
Over 50 workers to 100 workers	470	7,672	40.9	45	3,005	22.1	589	7,085	32.7	85	6,228	29.2	794	12,896	30.2	63	4,185	10.7
Over 100 workers to 200 workers	415	6,492	34.6	71	5,983	44.0	674	8,120	37.5	108	7,562	35.4	908	15,957	37.4	141	10,180	25.9
Over 200 workers	144	1,070	5.7	21	2,116	15.6	183	3,081	14.2	87	3,716	17.5	320	6,975	16.3	110	13,729	35.1
Total	1,241	18,755	100.0	171	13,589	100.0	1,717	21,663	100.0	349	21,326	100.0	2,451	42,638	100.0	438	39,229	100.0
<b>H. Clientele Spread as of December 31, 1978 /b</b>																		
	Foreign currency			Domestic currency			Working capital loans											
	No. of clients	Amount	%	No. of clients	Amount	%	No. of clients	Amount	%									
Clients with one loan only	1,099	52,602	56.8	1,301	19,242	26.5	8,411	51,890	18.7									
Clients with two loans	219	17,409	18.8	686	18,661	25.7	4,026	52,728	19.0									
Clients with three loans	101	9,446	10.2	411	12,344	17.0	3,185	54,659	19.7									
Clients with more than three loans	80	13,149	14.2	661	22,364	30.8	2,987	118,210	42.6									
Total	1,499	92,606	100.0	3,059	72,611	100.0	18,609	277,487	100.0									

/a At the time of loan application to SMIB.

/b On an outstanding basis, based on provisional (unaudited) figures.

AEP Projects Department  
April 30, 1979

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Partial Economic Indicators of Foreign Currency Loans Approved, 1973-78 /a

	1973/74	1975	1976	1977	1978	1973-78
Number of projects	174	121	127	140	208	770
Total project cost (W million)	33,611	29,432	31,442	31,786	62,168	188,439
Amount of SMIB's financing (W million) /b	15,399	12,435	16,892	17,162	35,443	97,331
Share of SMIB's financing (%)	45.8	42.2	53.7	54.0	57.0	51.7
Incremental annual sales (W million) /c	70,037	55,870	63,414	76,931	121,293	387,545
Incremental annual value added (W million)/c	30,392	14,122	17,343	26,150	41,559	129,566
Direct additional employment (number) /c	22,369	5,241	5,601	5,699	7,350	46,260
Incremental annual gross exports (\$ million) /c	79.7	62.8	71.9	43.0	56.1	313.5
Increase in fixed assets (W million)	24,306	15,336	24,468	24,535	43,606	132,251
<u>Economic Indicators</u>						
Sales per additional employee (W thousand)	3,131	10,660	11,322	13,499	16,502	8,377
Value added per additional employee (W thousand)	1,359	2,695	3,096	4,588	5,654	2,800
Fixed assets per additional employee (W thousand)	1,086	2,926	4,368	4,305	5,933	2,858
Fixed assets per additional employee (US\$)	2,239	6,032	9,007	8,876	12,232	5,894
Ratio of sales to fixed assets	2.9	3.6	2.6	3.1	2.8	2.9
Ratio of value added to fixed assets	1.3	0.9	0.7	1.1	0.9	1.0
Ratio of value added to sales	0.4	0.3	0.3	0.3	0.3	0.3
Export share of sales (%)	54.8	54.5	55.0	27.1	22.4	39.2

/a Based on projections made at the time of appraisal. This table refers only to those projects financed under official lines of credit (i.e. KFX etc. projects are excluded).

/b This is the Won equivalent of the total SMIB financing provided for projects requiring foreign exchange financing i.e. both foreign and domestic currency financing, hence the differences with Annex 5, Table 4. An exchange rate of \$1 = W 485 is used for all years.

/c The magnitude of these items is based on estimates of initial capacity operations, which is approximately equal to 80% of full capacity operations.

AEP Projects Department  
April 30, 1979

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Present and Projected Labor Requirements and Supply

A. Operatives Actually Employed as % of Requirements in SMI /a  
(As of end-1976)

	Engineer /b	Technician /c	Others /d	Total
Food, Beverage and Tobacco	88.9	86.5	91.7	90.7
Textile, Wearing Apparel and Leather	88.9	94.9	97.2	96.1
Wood and Wood Products	73.8	83.0	82.5	82.5
Paper, Paper Products and Printing	86.8	89.1	93.2	91.7
Chemicals, Petroleum, Coal, Rubber and Plastic	87.0	63.7	88.7	78.9
Non-metallic Mineral Products	89.1	90.8	97.0	95.1
Basic metals	88.5	95.4	106.0	100.5
Metal Products, Machinery and Equipments	96.7	92.9	91.5	92.4
Others	93.5	93.9	99.7	99.9
<u>Total</u>	<u>91.0</u>	<u>89.9</u>	<u>94.4</u>	<u>92.8</u>

B. Requirements for and Availability of Technical Manpower /e  
(1977-1981)

Sources		Requirements	Availability (B) (At end of 1976)	B/A(%)
		------(In thousand persons)-----		
Engineer	Four-year engineering colleges Graduate schools	44.7	62.4	139.6
Technician	Two-year engineering colleges Technical junior schools	80.0	55.7	69.6
Skilled workers	Technical high schools Vocational training institutes Other training schools	721.6	422.8	58.5
<u>Total</u>		<u>846.3</u>	<u>540.9</u>	<u>63.9</u>

/a Source: SMIB

/b Includes four-year engineering college graduates, and those with more than three years work experience after graduating from two-year engineering colleges and technical junior school.

/c Includes graduates from two-year engineering colleges and technical junior schools and those with more than three years work experience after graduating from technical high schools.

/d Includes skilled workers, unskilled workers and laborers.

/e Source: Ministry of Education, Office of Labor Affairs.

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Summary Guarantee Operations, 1974 - June 30, 1978  
(In W million)

	<u>1974</u>		<u>1975</u>		<u>1976</u>		<u>1977</u>		<u>1978</u>	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
<u>Guarantees Issued</u>										
Short-term	485	4,875	2,961	27,951	5,617	58,912	5,910	64,068	6,534	87,834
Long-term	715	6,673	827	7,948	4	111	24	260	6	246
<u>Total</u>	<u>1,200</u>	<u>11,548</u>	<u>3,788</u>	<u>35,899</u>	<u>5,621</u>	<u>59,023</u>	<u>5,934</u>	<u>64,328</u>	<u>6,540</u>	<u>88,080</u>
<u>Guarantees Redeemed</u>										
Short-term	-	5,797	2,720	25,050	5,422	58,939	5,606	61,013	6,275	83,006
Long-term	-	6,638	923	8,878	14	204	15	227	25	154
<u>Total</u>	<u>-</u>	<u>12,435</u>	<u>3,643</u>	<u>33,928</u>	<u>5,436</u>	<u>59,143</u>	<u>5,621</u>	<u>61,240</u>	<u>6,300</u>	<u>83,160</u>
<u>Guarantees Outstanding</u>										
Short-term	263	1,946	504	4,408	699	4,381	1,003	7,436	1,262	12,264
Long-term	118	621	22	130	12	37	21	70	2	162
<u>Total</u>	<u>381</u>	<u>2,567</u>	<u>526</u>	<u>4,538</u>	<u>711</u>	<u>4,418</u>	<u>1,024</u>	<u>7,506</u>	<u>1,264</u>	<u>12,426</u>
(Of which in foreign exchange)		(1,517)		(3,452)		(2,751)		(4,920)		(7,776)
Advances on guarantees		428		442		64		540		278
Total guarantees affected		942		1,017		154		1,140		1,392
(As % of total outstanding guarantees)		37		22		3.5		15.2		11.2

AEP Projects Department  
 April 30, 1979

KOREA  
THE SMALL AND MEDIUM INDUSTRY BANK

ANNEX 5  
Table 9  
Page 1 of 2

Subprojects Approved Under IBRD Loan No. 1507-KO as of December 31, 1978

Subborrower	Industry	Production line New/Exp./Rep.	At loan application		Total project cost		MIB's financing		Incremental annual sales (W million)	Incremental annual exports (US\$'000)	Incremental employment	Fixed invest. (Won'000)	Cost/job (US\$)	Subcontractor
			Total assets (W mil.)	Total employ- ment	Total cost (W million)	Fixed cost	Local (W million)	Foreign (US\$'000)						
Dae Han Construction Co., Ltd.	Construction	Exp.	257	41	109	86	-	177	149	-	7	12,264	25,286	No
Sam Jin Construction Co., Ltd.	Construction	Exp.	58	7	101	75	-	155	58	-	6	12,489	25,750	No
Kum Kang Heavy Machinery Co., Ltd.	Construction	Exp.	110	13	104	75	-	155	106	-	9	8,353	17,222	No
Yunho Industrial Co., Ltd.	Construction	Exp.	228	31	198	141	-	291	166	-	17	8,302	17,118	Yes
Seung Il Can Manufacturing Co.	Metal	Exp.	460	82	131	98	20	191	720	-	5	19,527	40,262	No
Pyeong Hwa Clutch Ind. Co., Ltd.	Metal	Exp.	755	296	189	136	-	281	330	-	10	13,629	28,100	No
Jinyang Industrial Co., Ltd.	Machine	Exp.	179	45	60	48	-	99	-	-	17	2,824	5,824	Yes
Keun Bae Construction Co., Ltd.	Construction	Exp.	447	37	94	73	10	150	115	-	3	24,250	50,000	Yes
Kukil Michang Co., Ltd.	Paper	Exp.	580	253	290	160	-	329	1,207	-	13	12,274	25,308	No
Dae Shin Heavy Machinery Co.	Construction	Exp.	255	66	268	212	-	438	328	-	30	7,081	14,600	No
Ham Sung Industrial Co.	Chemical	Exp.	285	34	127	94	-	188	180	-	16	5,886	12,136	No
Hyo Sung Construction Co.	Construction	Exp.	145	29	229	170	-	350	176	-	6	28,268	58,284	No
Sam Heung Construction Co., Ltd.	Construction	Exp.	557	45	63	49	-	101	42	-	4	12,246	25,250	No
Sambo Print. & Pkg. Mfg. Co., Ltd.	Printing	Exp.	806	120	257	161	-	331	570	149	6	26,756	55,167	No
Central Const. Machinery Co., Ltd.	Construction	Exp.	184	18	131	102	-	210	81	-	13	7,835	16,154	No
Dae Hung Industrial Co.	Machinery	Exp.	148	50	77	48	-	100	166	-	10	4,850	10,000	Yes
Sam Yang Dyeing Co.	Textile	Exp.	216	73	153	122	-	229	438	-	5	24,313	50,130	Yes
Sudo Weaving Textile Co.	Textile	Exp.	220	34	170	135	13	241	126	180	61	2,210	4,556	Yes
Korea Medical Supply Co., Ltd.	Others	Exp.	400	240	44	35	-	43	232	220	28	1,251	2,580	No
Keum Sul Bolt Co.	Metal	Exp.	193	41	204	130	20	257	182	-	20	6,480	13,360	No
Young Jin Pile Textile Co., Ltd.	Textile	Exp.	762	150	222	144	-	297	363	725	21	6,859	14,143	No
Hanil Construction Ltd.	Construction	Exp.	56	8	114	89	40	100	183	-	25	3,540	7,300	No
Sam Kwang Const. Mach. Co., Ltd.	Construction	Exp.	143	27	161	125	-	257	105	-	10	12,465	25,700	No
Chong Kong Sa Co., Ltd. (IRR = 36.2%; ERR = 83.2%)	Machinery	Exp.	734	161	666	551	194	681	2,909	-	92	5,999	12,369	No
Sam Hyup Construction Co., Ltd.	Construction	Exp.	115	23	98	76	-	157	91	-	6	12,691	26,167	No
Seo Ryung Chem. Indus. Co., Ltd.	Chemical	New	107	-	415	174	100	68	1,663	571	100	1,745	3,599	No
Shin Sung Chemical Industrial Co.	Plastic	Exp.	244	65	65	42	-	87	136	-	5	8,439	17,400	No
Jae Sung Industrial Co., Ltd.	Metal	New	81	3	67	67	-	83	253	-	37	1,815	3,743	No
Ssang Ma Textile Sun Won														
Seemaesul Co.	Textile	Exp.	672	383	122	99	-	165	175	186	14	7,091	14,621	No
Sam Shin Woolen Textile Co.	Textile	Exp.	138	23	370	164	-	339	970	-	43	3,818	7,872	No
Yun Hap Ampoule Co., Ltd.	Glass	Exp.	206	56	38	22	-	46	59	-	4	5,578	11,500	No
Dae Shin Heavy Machinery Co.	Construction	Exp.	255	66	25	38	-	52	38	-	2	12,610	26,000	No
Seil Heavy Machinery Co., Ltd.	Construction	New	235	4	305	233	-	480	249	-	26	8,954	18,462	No
Bae Dong Construction Co., Ltd.	Construction	Exp.	649	39	68	52	-	108	66	-	4	13,095	27,000	No
Samill Const. Machinery Co., Ltd.	Construction	Exp.	45	12	66	52	-	107	35	-	4	12,974	26,750	No
Il Hwa Construction Co., Ltd.	Construction	Exp.	70	9	105	77	-	159	91	-	3	25,705	53,000	No
Dae Young Const. Machinery Co.	Construction	Exp.	622	48	298	232	-	479	438	-	19	12,227	25,211	No
Shinil Precision Mach. Indus. Co.	Machinery	Exp.	150	41	51	32	-	65	98	-	5	6,305	13,000	No
Yong Shin Dyeing & Fini. Co., Ltd.	Textile	Exp.	500	70	168	104	-	129	470	300	78	1,338	2,760	No
Bum Hwa Construction Co., Ltd.	Construction	Exp.	111	23	103	80	-	165	76	-	6	13,338	27,500	Yes
Seh Heung Construction Co.	Construction	Exp.	38	17	66	52	-	108	60	-	4	13,095	27,000	No
Kum Sul Const. Machinery Co.	Construction	Exp.	122	24	169	133	-	274	156	-	10	13,289	27,400	No
Yu Shin Heavy Machinery Co.	Construction	Exp.	202	116	196	152	-	314	164	-	12	12,691	26,167	No
Sinwoo Construction Co., Ltd.	Construction	Exp.	438	50	26	19	-	39	42	-	5	3,783	7,800	No
Dongil Industrial Co.	Construction	Exp.	47	10	68	53	-	110	60	-	4	13,270	27,360	No
Oh Sung Woolen Textile Co.	Textile	Exp.	88	56	145	111	-	220	49	-	17	6,503	13,409	No
Junil Industrial Co., Ltd.	Construction	Exp.	317	30	116	91	-	187	110	-	7	12,954	26,709	No
Duk Chun Industrial Co., Ltd.	Metal	Exp.	456	149	144	54	-	112	103	-	19	2,859	5,895	No
Soo Won Heavy Machinery														
Unlimited Partnership	Construction	Exp.	60	13	149	97	-	199	93	-	12	8,043	16,583	No
Boo Rha Enterprise Co., Ltd.	Construction	Exp.	389	41	274	212	-	437	202	-	14	15,139	31,214	No
Yu Jin Construction Co.	Construction	Exp.	48	10	51	67	-	106	50	-	4	12,853	26,500	No
Tae Yang Sa	Plastic	Exp.	487	111	269	209	-	431	151	144	31	6,743	13,903	No
Haitae Dyeing Co., Ltd.	Textile	Exp.	333	104	43	30	-	37	171	-	22	1,341	2,765	No
Dai You Animal Feeds Co., Ltd.	Animal feeds	New	20	-	72	30	20	37	338	-	29	1,031	2,125	No
Kaimung Can Making Co., Ltd.	Metal	Exp.	57	57	53	42	-	65	-	-	15	2,813	5,800	No
Jung Chang Industrial Co., Ltd.	Others	Exp.	205	105	47	26	-	32	65	-	29	883	1,821	No
Kwang Il Hyv Machinery Co., Ltd.	Construction	Exp.	98	21	243	190	-	391	208	-	21	9,030	18,619	No
Dongseung Tomok Co.	Construction	Exp.	211	35	99	78	-	160	76	-	7	11,086	22,857	No
Dong Bang Preci. Mold Co., Ltd.	Plastic	Exp.	443	56	185	141	-	269	154	250	6	23,435	48,320	No
Woong Sun Printing Co.	Printing	Exp.	122	29	207	160	-	238	576	-	22	7,274	14,998	No
Sungan Industrial Co.	Metal	Exp.	62	18	30	30	-	37	99	-	8	5,000	10,309	No
Hsougasa	Metal	Exp.	266	98	419	195	30	402	777	-	72	2,709	5,583	No
Union Bldg-Mate. Ind. Co., Ltd.	Cement	Exp.	149	24	109	73	-	151	130	80	17	4,294	8,853	No
Daewon Co., Ltd.	Plastic	New	150	2	489	298	53	454	728	931	17	4,143	8,542	No
Han Jin Stil Fence Ind. Co., Ltd.	Metal	Exp.	145	37	96	52	35	64	371	-	24	7,146	14,424	No
Sam Young Jun Fan Printing Co.	Printing	Exp.	250	40	54	42	-	87	81	34	6	7,033	14,500	No
EDR Landscaping Co.	Construction	Exp.	270	31	67	52	-	107	50	-	5	10,379	21,400	No
Baikwangsa	Printing	Exp.	217	52	183	139	-	286	142	-	4	23,118	47,667	No
Choongil Mining Co.	Mining	Exp.	93	39	43	39	10	57	128	-	6	9,821	20,250	No
Young Jin Heavy Machinery Co.	Construction	Exp.	173	36	297	230	-	475	152	-	22	10,471	21,591	No
Soo Bok Textile Co., Ltd.	Textile	Exp.	291	64	95	85	-	98	130	269	35	2,434	5,019	Yes
Mijin Offset Printing Co.	Printing	Exp.	33	9	49	34	-	70	77	-	3	11,317	23,333	No
Jun Won Condenser Ind. Co., Ltd.	Electric	Exp.	333	174	89	55	-	113	187	300	26	2,108	4,346	Yes
Sam-A Forwarding Co., Ltd.	Transport	Exp.	450	102	146	113	-	232	225	-	4	28,130	58,000	No
Dongil Enterprise Co., Ltd.	Transport	Exp.	304	208	303	237	20	488	240	-	90	2,630	5,422	Yes
Hyup Dong Construction Co.	Construction	Exp.	85	8	102	79	-	163	131	-	4	19,756	40,734	No
Duck Wha Construction Co.	Construction	Exp.	146	28	100	78	-	161	106	-	7	11,155	23,000	No
Dong Yang Asbestos Ind. Co., Ltd.	Glass	Exp.	336	99	47	37	-	77	133	247	24	1,550	3,196	No
A-Sung Electronics, Ind. Co. (IRR = 26%; ERR = 45.7%)	Electronic components	New	254	11	674	411	-	600	193	357	158	2,604	5,369	Yes
Hans Kook Chinaware Co., Ltd. (IRR = 17.7%; ERR = 31.6%)	Chinaware	Exp.	1,304	435	1,021	711	-	764	1,209	2,000	155	4,975	10,258	No
Daesung Textile Co. (IRR = 19.5%; ERR = 37.4%)	Textile	Exp.	601	101	244	183	-	366	112	34	27	6,760	13,937	Yes
Dae Ha Trading Co., Ltd. (IRR = 30.6%; ERR = 61.7%)	Textile	New	-	3	1,274	989	75	650	77	158	30	32,950	67,938	Yes
Sung Shin Heavy Machinery	Construction	Exp.	336	51	304	236	-	486	236	-	16	14,738	30,388	No
Mia Molesan Co., Ltd.	Plastic	Exp.	154	56	92	48	20	99	265	-	9	5,328	10,986	No
Mijin Chemical Ind. Co., Ltd.	Plastic	Exp.	981	245	231	176	-	363	493	224	16	11,003	22,688	No
Youl Chon Printing Co.	Plastic	Exp.	691	170	286	150	-	310	-	-	12	12,529	25,833	No
Gwang Chun Chinaware Co.	Chinaware	Exp.	51	94	44	40	20	31	60	20	20	2,002	4,127	No
Aan Il Mulsan Co., Ltd.														





Subcontractor	Industry	Production Line	At Loan Application			At Loan Disbursement			Incremental			Incremental			Fixed Invest. (Mn USD)	Cost/Job (USD)	Subcontractor
			Total assets (\$ mil.)	Total employees	Total cost (\$ million)	Total assets (\$ million)	Total employees	Total cost (\$ million)	Incremental assets (\$ million)	Incremental employees	Incremental cost (\$ million)	Incremental assets (\$ million)	Incremental employees	Incremental cost (\$ million)			
Yang Ji Metal Ind. Co.	Metal	Exp.	462	190	39	31	-	63	203	-	-	25	1,222	2,520	No		
Li Yang Electric Co. Mfg. Co.	Electric	Exp.	666	328	213	172	-	230	674	-	-	73	1,661	3,435	No		
Shanghai Electric Ind. Co.	Other (Electric)	Exp.	133	56	22	8	-	10	319	-	111	5	-	-	No		
Bao II Electric Co., Ltd.	Other (Electric)	Exp.	601	72	50	24	-	50	415	-	-	16	1,516	3,125	No		
Yuan Ji Engineering & Mfg. Co.	Other (Eng. parts)	Exp.	372	90	70	45	-	280	1,206	-	-	60	7,611	15,693	No		
Shanghai Machine Factory	Other (Electric)	Exp.	225	38	18	16	-	31	17	-	-	10	4,400	2,886	No		
Union Transport Co.	Transport	Exp.	368	76	305	238	-	490	540	-	100	20	23,765	49,000	No		
Shin Ji Plastic Ind. Co.	Plastic	Exp.	107	15	149	104	-	36	203	-	-	18	5,766	11,889	No		
Donghai Plastic Co.	Plastic	Exp.	59	24	22	18	-	24	137	-	-	4	4,365	9,000	No		
Sheng Rong Plastic Co.	Printing	Exp.	200	146	15	16	-	18	183	-	-	6	18,315	33,000	No		
Jeong Moon Sa Nook Nae Co.	Printing	Exp.	176	43	101	80	-	165	193	-	-	10	8,003	16,500	No		
Other (Electric parts)	Other (Electric parts)	Exp.	488	95	314	237	-	486	377	-	1,314	62	3,802	7,839	No		
Sheng Nam Woel Co., Ltd.	Textile	Exp.	778	354	385	515	-	692	1,062	-	-	101	3,119	6,431	No		
Shanghai Textile Co., Ltd.	Textile (Ties)	Exp.	92	48	25	15	-	22	25	-	-	27	12,872	25,131	No		
Korea Industries Co., Ltd.	Construction	Exp.	683	437	332	-	-	487	1,087	-	-	22	43,187	87,311	No		
Byung Hong Const. Co.	Construction	Exp.	85	8	75	36	-	120	101	-	-	2	29,100	60,000	No		
Dae Young Heavy Equip. Co.	Construction	Exp.	159	21	304	239	-	492	210	-	-	8	29,828	61,500	No		
Han Ji Ceramic Co.	Ceramic	Exp.	101	115	163	128	-	172	276	-	-	5	1,112	3,530	No		
Shanghai Silk Ind. Co.	Textile	Exp.	966	225	232	169	-	340	708	-	276	13	2,061	4,198	No		
Shanghai Silk Ind. Co.	Textile	Exp.	320	220	247	142	-	50	247	-	135	61	3,766	7,455	No		
Dae Dong Plastic Co.	Plastic	Exp.	139	48	50	39	-	61	160	-	-	6	4,931	10,167	No		
Samsung Rubber & Plastic Co.	Rubber Prod.	Exp.	311	60	529	491	-	450	1,170	-	-	166	2,955	6,093	Yes		
Shanghai Electric Chem. Ind. Co.	Chemical	Exp.	311	33	62	41	-	55	132	-	-	3	1,462	3,013	Yes		
Cull Chemical Ind. Co.	Chemical	Exp.	311	37	54	32	-	65	304	-	-	7	9,286	19,286	No		
Kam Young Electric Co.	Construction	Exp.	650	460	35	12	-	253	53	-	583	6	20,451	42,187	No		
Shanghai Agric. Mach. Works	Machinery	Exp.	710	113	110	28	-	36	654	-	-	20	2,126	7,884	No		
Shanghai Agric. Mach. Works	Machinery	Exp.	141	5	138	25	-	38	55	-	-	10	1,397	2,861	No		
Byung Hong Const. Co.	Construction	Exp.	25	2	25	18	-	26	51	-	-	3	4,931	9,135	No		
Han Kook Metal Ind. Co.	Metal	Exp.	61	207	77	89	-	78	898	-	-	40	4,549	9,586	Yes		
Chun Moo Woel Textile Co.	Textile	Exp.	128	2	227	186	-	66	-	-	-	40	4,549	9,586	Yes		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	160	469	271	181	-	141	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
Shanghai Heavy Machinery Co., Ltd.	Transport	Exp.	159	470	278	228	-	142	1,040	-	171	43	4,240	9,874	No		
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KOREA  
THE SMALL AND MEDIUM INDUSTRY BANKSummarized Balance Sheets, 1974-1978  
(In W million)

As of December 31,	1974	1975	1976 Audited	1977	1978
<b>Assets</b>					
<b>Current Assets</b>					
Cash and bank deposits /a	39,152	65,507	83,409	129,652	212,421
Investment in securities	3,533	4,363	8,737	17,387	36,740
Interest receivable	2,485	3,199	2,921	3,134	4,867
Less: Provision for possible losses	-	-	-	510	-
Short-term working capital loans	68,832	85,226	124,510	159,412	226,900
Other current assets	1,542	572	1,279	5,228	3,306
<b>Total current assets</b>	<b>110,544</b>	<b>158,867</b>	<b>220,856</b>	<b>314,303</b>	<b>484,234</b>
<b>Term Portfolio</b>					
Working capital loans	44,979	47,444	33,400	46,289	56,194
Domestic currency equipment loans	22,490	26,306	33,429	44,857	72,610
Foreign currency loans /b	26,530	33,389	42,863	58,332	101,163
of which loans from:					
USAID	2,003	1,717	1,442	1,085	827
KFW	-	277	1,158	1,713	1,752
OECF	6,450	5,411	4,350	3,357	2,556
ADB	10,164	18,582	22,901	28,502	40,973
EXIM	7,913	7,402	6,421	6,322	6,843
IBRD	-	-	6,535	12,703	32,476
KFX	-	-	56	4,650	15,736
<b>Total term loans</b>	<b>93,999</b>	<b>107,139</b>	<b>109,692</b>	<b>149,478</b>	<b>229,967</b>
Less: Provisions	-	280	305	794	300
<b>Net Portfolio</b>	<b>93,999</b>	<b>106,859</b>	<b>109,387</b>	<b>148,684</b>	<b>229,667</b>
Property and equipment	3,322	3,920	4,580	6,753	9,552
Less: Depreciation	721	915	1,173	1,409	1,723
Property and equipment (net)	2,601	3,005	3,407	5,344	7,799
<b>Other Assets</b>					
Long-term lease deposits	1,784	2,265	3,277	5,364	8,990
Properties acquired through foreclosure	1,198	1,036	1,515	723	126
Receivable from sale of foreclosed properties	4,304	3,686	3,767	3,466	2,509
<b>Total other assets</b>	<b>7,286</b>	<b>6,987</b>	<b>8,559</b>	<b>9,553</b>	<b>11,625</b>
<b>Total assets</b>	<b>214,430</b>	<b>275,718</b>	<b>342,209</b>	<b>477,884</b>	<b>733,325</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Short-term deposits	71,343	95,570	138,751	224,341	353,440
Borrowings from BOK	10,233	19,615	22,050	25,606	20,419
Dividends payable	184	184	9	8	7
Taxes payable	50	59	150	114	71
Due to correspondent banks	3,047	7,960	8,372	10,180	8,294
Accrued interest and others	10,126	13,940	27,118	34,681	84,499
<b>Total current liabilities</b>	<b>95,003</b>	<b>137,328</b>	<b>196,450</b>	<b>294,930</b>	<b>466,730</b>
<b>Long-Term Liabilities</b>					
Savings deposits	57,863	69,181	64,151	82,836	118,196
Borrowings from GOK	15,520	13,452	10,842	10,766	11,713
Borrowings from NIF	1,627	5,128	8,523	13,182	23,311
Borrowings from IRF	10,403	8,634	6,131	3,650	2,915
Foreign currency borrowings /c	27,465	35,113	43,619	54,264	84,646
of which borrowings from:					
USAID	1,906	1,513	1,190	854	530
KFW	-	277	1,186	1,812	1,875
OECF	7,393	6,310	5,232	4,163	2,424
ADB	10,231	18,548	22,850	28,371	40,706
EXIM	7,935	8,465	6,626	6,364	6,719
IBRD	-	-	6,535	12,700	32,392
<b>Total long-term liabilities</b>	<b>112,878</b>	<b>131,508</b>	<b>133,266</b>	<b>164,698</b>	<b>240,781</b>
<b>Equity</b>					
Paid-in share capital	3,060	3,060	8,060	13,060	20,060
Reserves	1,280	1,430	1,941	2,573	3,203
Retained earnings	2,209	2,392	2,492	2,623	2,551
<b>Total equity</b>	<b>6,549</b>	<b>6,882</b>	<b>12,493</b>	<b>18,256</b>	<b>25,814</b>
<b>Total liabilities and equity</b>	<b>214,430</b>	<b>275,718</b>	<b>342,209</b>	<b>477,884</b>	<b>733,325</b>
<b>Outstanding Guarantees</b>					
Short-term guarantees	1,946	4,408	4,381	7,436	12,264
Long-term guarantees	621	130	37	70	162
<b>Total guarantees</b>	<b>2,567</b>	<b>4,538</b>	<b>4,418</b>	<b>7,506</b>	<b>12,426</b>
<b>Ratios</b>					
Current ratio	1.2	1.2	1.1	1.1	1.1
Long-term debt/equity /d	15.8:1	17.4:1	9.8:1	8.3:1	8.5:1
Total debt/equity	31.8:1	39.1:1	26.4:1	25.2:1	27.4:1
Reserves and provisions as % of portfolio /e	2.2%	2.1%	2.0%	1.9%	1.3%

/a Including reserve requirements with BOK.

/b Including (since 1976) foreign exchange loans made out of KFX funds.

/c KFX funds are technically made available by the BOK to SMIB on a one-year deposit basis, even though in practice they are renewed automatically. Hence, the KFX liabilities have since 1976 (when SMIB first received these foreign exchange resources) been included under the current liability heading "Accrued Interest and Others," and not under "Long-Term Foreign Currency Borrowings."

/d Including long-term guarantees and savings deposits net of BOK reserve requirements.

/e Total portfolio including guarantees.

## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Summarized Income Statements, 1974-1978  
(In W million)

As of December 31,	1974	1975	1976	1977	1978
	----- Audited -----				
<u>Income</u>					
Interest on loans	17,325	24,147	31,122	41,152	56,670
Equipment Loans	3,952	6,550	6,997	9,706	14,928
Foreign currency loans	(1,980)	(2,560)	(3,646)	(4,482)	(7,375)
Domestic currency loans	(1,972)	(3,990)	(3,351)	(5,224)	(7,553)
Working capital loans	13,373	17,597	24,125	31,446	41,742
Interest on deposits, securities and other	2,435	3,568	3,383	4,433	13,055
Guarantee fees, commissions, etc.	1,077	1,476	1,900	2,147	3,525
Other income	643	512	499	-	-
<u>Total Income</u>	<u>21,480</u>	<u>29,703</u>	<u>36,904</u>	<u>47,732</u>	<u>73,250</u>
<u>Expenses</u>					
Financial expenses	13,087	18,827	24,648	31,423	51,784
Domestic currency borrowings & deposits	11,917	15,807	21,064	27,118	46,604
Foreign currency borrowings	1,170	3,020	2,584	4,305	5,180
Administrative and general expenses	6,782	9,296	10,021	13,042	19,717
o.w. wages and salaries	(4,548)	(6,235)	(6,956)	(9,603)	(15,686)
Provisions for doubtful accounts /a	77	280	630	1,225	(858)
Other expenses /b	859	724	929	1,137	1,775
<u>Total Expenses</u>	<u>20,805</u>	<u>29,127</u>	<u>36,228</u>	<u>46,827</u>	<u>72,418</u>
Income before tax	675	576	676	905	832
Income tax	50	59	64	142	110
<u>Net Income</u>	<u>625</u>	<u>517</u>	<u>612</u>	<u>763</u>	<u>722</u>
<u>Appropriation</u>					
Dividends /c	184	184	1	1	164
Reserves	105	150	512	631	630
Unappropriated retained earnings	336	183	99	131	(-72)
<u>Total</u>	<u>625</u>	<u>517</u>	<u>612</u>	<u>763</u>	<u>722</u>
<u>Financial Performance</u>					
<u>Percentage of Average Total Assets</u>					
1. Gross income	11.1	12.1	11.9	11.6	12.1
2. Financial expenses	6.7	7.7	8.0	7.7	8.6
3. Gross spread (1-2)	4.4	4.4	3.9	3.9	3.5
4. Administrative expenses	4.0	4.1	3.5	3.2	3.3
5. Provisions	0.1	0.1	0.2	0.3	-
6. Net income	0.3	0.2	0.2	0.2	0.1
<u>Net Income as % of</u>					
Average equity	9.9	7.7	6.3	5.0	3.3
Share capital	20.4	16.9	7.6	5.8	3.6
<u>Other Ratios</u>					
Income from loans as % of average loan portfolio	12.8	13.8	14.6	15.2	14.8
Cost of debt as % of average total borrowings	7.5	8.5	9.1	8.9	10.1
Interest spread	5.3	5.3	5.5	6.3	4.7
Dividend payout (%)	29.0	36.0	0.2	0.1	23.0
Book value as % of par	214	225	155	140	129
Interest cover /d	1.07	1.06	1.06	1.08	1.00
Debt service cover /e	1.18	1.08	1.18	1.15	1.13
Return on average total assets (%) /f	7.1	7.9	8.2	7.9	8.7

/a Write-offs in 1974, 1976 and 1977 amounted to W 77 million, W 605 million and W 226 million respectively.

/b Including losses on foreign exchange transactions.

/c The dividend pay-out policy was changed by MOF in 1978.

/d Net earnings before tax, provisions, interest and depreciation to interest charges.

/e Net income + noncash charges + interest charges + term loan collections to interest charges + repayments of term borrowings (excluding collection of term working capital loans and repayments of savings deposits).

/f Net income before tax and interest to average total assets.

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Summarized Cash Flow Statements, 1974-1978  
(In W million)

	1974	1975	1976	1977	1978
<b>SOURCES</b>					
Operations					
Net income	625	517	612	763	722
Noncash charges	245	474	888	1,461	2,030
Subtotal	<u>870</u>	<u>991</u>	<u>1,500</u>	<u>2,224</u>	<u>2,752</u>
Issuance of shares for cash	-	-	5,000	5,000	7,000
Drawdown on:					
Foreign currency borrowings /a	11,788	10,253	13,504	16,208	29,914
Government borrowings	500	-	29	2,032	3,520
BOK	66,075	210,446	293,753	246,844	349,803
NIF	1,627	3,646	4,400	6,323	12,512
IRF	4,803	174	-	-	488
Subtotal	<u>84,793</u>	<u>224,519</u>	<u>311,686</u>	<u>271,407</u>	<u>396,237</u>
Collections: /b					
Foreign currency loans /c	2,199	3,647	4,303	6,149	8,280
Domestic currency equipment loans	4,032	4,184	11,632	10,235	14,884
Working capital loans	578,281	820,492	1,148,988	1,496,386	2,150,986
Subtotal	<u>584,412</u>	<u>828,323</u>	<u>1,164,923</u>	<u>1,512,770</u>	<u>2,174,150</u>
Increase in savings deposits	1,904	11,318	-5,030	18,685	35,360
Increase in short-term deposits	15,647	24,227	43,181	85,590	129,099
Increase in current liabilities /d	1,837	8,736	13,680	9,334	47,889
Total sources	<u>689,563</u>	<u>1,098,114</u>	<u>1,534,940</u>	<u>1,905,010</u>	<u>2,792,487</u>
<b>USES</b>					
Additions to fixed assets (gross)	304	598	660	2,172	2,769
Disbursements: /b					
Foreign currency loans /e	11,726	10,506	13,777	21,618	42,554
Domestic currency equipment loans	9,310	8,000	18,755	21,663	42,638
Working capital loans	609,209	844,351	1,174,228	1,544,177	2,222,772
Subtotal	<u>630,245</u>	<u>862,857</u>	<u>1,206,760</u>	<u>1,587,458</u>	<u>2,307,964</u>
Repayment of borrowings:					
Foreign currency borrowings /f	1,742	2,605	4,998	5,563	8,069
BOK /g	60,213	201,083	291,318	243,288	356,876
Government of Korea	1,531	2,068	2,639	2,109	2,573
NIF	-	146	1,004	1,664	2,384
IRF	682	1,943	2,503	2,480	1,224
Subtotal	<u>64,168</u>	<u>207,845</u>	<u>302,462</u>	<u>255,104</u>	<u>371,126</u>
Increase in current assets (receivable and others)	555	-256	429	4,162	2,216
Increase in short-term investments (securities)	-6,969	830	4,374	8,650	19,353
Increase in cash	1,537	26,355	17,902	46,243	82,769
Subtotal	<u>-4,877</u>	<u>26,929</u>	<u>22,705</u>	<u>58,545</u>	<u>104,338</u>
Increase in other assets /h	-539	-299	1,572	994	5,979
Write-offs	77	-	605	226	147
Dividend payment	185	184	176	1	164
Total uses	<u>689,563</u>	<u>1,098,114</u>	<u>1,534,940</u>	<u>1,905,010</u>	<u>2,792,487</u>

- /a Excluding drawdown of KFX funds amounting W 56 million in 1976, W 4,612 million in 1977, and W 11,086 million in 1978. The drawdown of these KFX funds is instead included under drawdown from BOK (See footnote /b).
- /b Provisional figures for 1978.
- /c Including collections of KFX foreign currency loans amounting to W 18 million in 1977 and W 814 million in 1978.
- /d Taxes payable, due to correspondent banks, accrued interest and KFX funds.
- /e Including disbursement of KFX funds amounting to W 56 million in 1976, W 4,612 million in 1977, and W 10,900 million in first half 1978.
- /f Excluding repayments of KFX foreign currency loans amounting to W 18 million in 1977 and W 67 million in first half 1978. The repayment of these KFX loans is instead included under repayments to BOK (see footnote /g).
- /g Including repayment of KFX loans.
- /h Lease deposits and receivables from foreclosure and properties acquired through foreclosure.

## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Collection Performance During the Period 1974-1978  
(In W million)

	Total due during the year												
	Overdues		Maturing		Total due during the year			Actual collections			Collection ratio		
	Prin-	Inte-	Prin-	Inte-	Prin-	Inte-	Total	Prin-	Inte-	Total	Prin-	Inte-	Total
	cipal	rest	cipal	rest	cipal	rest		cipal	rest		cipal	rest	
Collection Ratios													
Domestic Currency Equipment Loans													
1974	255	153	4,218	2,197	4,473	2,350	6,823	4,032	2,233	6,265	90.1	95.0	91.8
1975	441	117	4,349	3,014	4,790	3,131	7,921	4,184	2,943	7,127	87.4	94.0	90.0
1976	606	188	11,605	4,098	12,211	4,286	16,497	11,632	4,023	15,655	95.3	93.9	94.9
1977	579	263	10,447	5,292	11,026	5,555	16,581	10,235	5,204	15,439	92.8	93.7	93.1
1978	791	351	15,361	7,652	16,152	8,003	24,155	14,884	7,553	22,437	92.1	94.4	92.9
Foreign Currency Equipment Loans													
1974	116	210	2,241	1,902	2,357	2,112	4,469	2,199	1,980	4,179	93.3	93.8	93.5
1975	158	132	3,766	2,591	3,924	2,723	6,647	3,647	2,560	6,207	92.9	94.0	93.4
1976	277	163	4,415	3,667	4,692	3,830	8,522	4,303	3,636	7,939	91.7	94.9	93.2
1977	389	194	5,931	4,620	6,320	4,814	11,134	6,149	4,687	10,836	97.3	97.4	97.3
1978	171	127	8,561	7,640	8,732	7,767	16,499	8,280	7,375	15,655	94.8	95.0	94.9
Working Capital Loans													
1974	2,741	1,161	578,829	13,579	581,570	14,740	596,310	578,281	13,112	591,393	99.4	89.0	99.2
1975	3,289	1,367	821,267	17,903	824,556	19,270	843,826	820,492	18,644	839,136	99.5	96.8	99.4
1976	4,064	1,673	1,149,070	23,862	1,153,134	25,535	1,178,669	1,148,988	23,463	1,172,451	99.6	91.9	99.5
1977	4,146	1,410	1,497,061	31,216	1,501,207	32,626	1,533,833	1,496,386	31,261	1,527,647	99.7	95.8	99.6
1978	4,821	1,180	2,150,077	40,635	2,154,898	41,815	2,196,713	2,150,986	41,742	2,192,728	99.8	99.8	99.8
Total Loans													
1974	3,112	1,524	585,288	17,678	588,400	19,202	607,602	584,512	17,325	601,837	99.3	90.2	99.1
1975	3,888	1,616	829,382	23,508	833,270	25,124	850,394	828,323	24,147	852,470	99.4	96.1	99.3
1976	4,947	2,024	1,165,090	31,627	1,170,037	33,651	1,203,688	1,164,923	31,122	1,196,045	99.6	92.5	99.4
1977	5,114	1,867	1,513,439	41,128	1,518,553	42,995	1,561,548	1,512,770	41,152	1,553,922	99.6	95.7	99.5
1978	5,783	1,658	2,173,999	55,927	2,179,782	57,585	2,237,367	2,174,150	56,670	2,230,820	99.7	98.4	99.7

## Status of Loan Portfolio (in W million)

Year ending December 31	1974		1974		1974		1974		1974	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Principal outstanding	157,831	100.0	192,365	100.0	234,202	100.0	308,890	100.0	456,867	100.0
of which:										
In grace period /a	27,525	17.5	25,668	13.3	31,048	13.3	41,759	13.5	95,325	20.9
Repaying regularly	123,287	78.1	158,048	82.2	195,931	83.6	259,393	84.0	355,910	77.9
In arrears	7,019	4.4	8,649	4.5	7,223	3.1	7,738	2.5	5,632	1.2
(Over 3 months)	(5,054)	(3.2)	(5,705)	(3.0)	(4,889)	(2.1)	(5,363)	(1.7)	(3,198)	(0.7)

/a All working capital loans are considered as having no grace period.

## KOREA

## THE SMALL AND MEDIUM INDUSTRY BANK

Status of Loan Portfolio as of December 31, 1978  
(In W million)

	Total outstanding loans			----- Arrears -----					----- Principal affected by arrears -----			
	No. of clients	Amount	%	Interest	Principal	Total	Total arrears	As % of Total outstanding loans /c	No. of clients	Amount	Affected loans	As % of Total outstanding loans /c
<b>Equipment Loans</b>												
Projects under implementation	481	20,138	11.6	-	-	-	-	-	-	-	-	-
Projects in initial stage of operation /a	852	23,716	13.6	126	134	260	10.2	0.2	7	372	9.7	0.2
Projects in operation /b	3,275	129,919	74.8	716	1,586	2,302	89.8	1.3	86	3,459	90.3	2.0
Of which:												
With operational problems	(93)	(4,175)	(2.4)	(716)	(1,586)	(2,302)	(89.8)	(1.3)	(86)	(3,459)	(90.3)	(2.0)
Problem free	(3,182)	(125,744)	(72.4)	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>4,608</b>	<b>173,773</b>	<b>100.0</b>	<b>842</b>	<b>1,720</b>	<b>2,562</b>	<b>100.0</b>	<b>1.5</b>	<b>93</b>	<b>3,831</b>	<b>100.0</b>	<b>2.2</b>
<b>Working Capital Loans</b>												
Projects under implementation	-	-	-	-	-	-	-	-	-	-	-	-
Projects in initial stage of operation /a	542	6,602	2.4	21	95	116	2.4	-	7	95	2.4	-
Projects in operation /b	16,085	270,885	97.6	804	3,817	4,621	97.6	1.6	336	3,897	97.6	1.4
Of which:												
With operational problems	(579)	(4,516)	(1.6)	(804)	(3,817)	(4,621)	(97.6)	(1.6)	(336)	(3,897)	(97.6)	(1.4)
Problem free	(15,506)	(266,369)	(96.0)	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>16,627</b>	<b>277,487/d</b>	<b>100.0</b>	<b>825</b>	<b>3,912</b>	<b>4,737</b>	<b>100.0</b>	<b>1.6</b>	<b>343</b>	<b>3,992</b>	<b>100.0</b>	<b>1.4</b>
<b>Total Loans</b>												
Projects under implementation	481	20,138	4.5	-	-	-	-	-	-	-	-	-
Projects in initial stage of operation /a	985	30,318	6.7	147	229	376	5.2	0.1	14	467	6.0	0.1
Projects in operation /b	16,317	400,804	88.8	1,520	5,403	6,923	94.8	1.5	422	7,356	94.0	1.6
Of which:												
With operational problems	(613)	(8,691)	(1.9)	(1,520)	(5,403)	(6,923)	(94.8)	(1.5)	(422)	(7,356)	(94.0)	(1.6)
Problem free	(15,704)	(392,113)	(86.9)	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>17,783/e</b>	<b>451,260</b>	<b>100.0</b>	<b>1,667</b>	<b>5,632</b>	<b>7,299</b>	<b>100.0</b>	<b>1.6</b>	<b>436</b>	<b>7,823</b>	<b>100.0</b>	<b>1.7</b>

/a Projects which have not yet completed their first year of operation.

/b Projects which have been operating for more than one year.

/c Under each category.

/d Excluding local credit bills amounting to W 5.6 billion.

/e Part double counting between equipment loan and working capital loan clients.

AEP Projects Department  
April 30, 1979

KOREA  
THE SMALL AND MEDIUM INDUSTRY BANKLong-Term Borrowings as of December 31, 1978  
(in W million)

	Initial amount of loan	Loan amount /a	Approvals	Commit- ments	Disburse- ments	Repay- ments	Out- standing	Interest rate		Maximum term (yrs.)/b		Date of Loan Agreement	Maximum amount on subloan /c	Free limit /c	Country of origin of purchases
								Borrowing	Relending	For SMIB	For Subborrowers				
<b>I. Foreign Currency Borrowings</b>															
USAID	3,880	3,404	3,404	3,404	3,404	2,874	530	5.0	8.0	15(3)	15(3)	1966/67	97(200)	49(100)	USA
OECP: 1st loan	7,275	7,187	7,187	7,187	7,187	5,957	1,230	7.0	8.0	13(3)	13(3)	1966	146(300)	146(300)	Japan
2nd loan	3,596	3,596	3,596	3,596	3,596	2,402	1,194	7.0	8.0	13(3)	13(3)	1967	97(200)	97(200)	Japan
Subtotal	10,871	10,783	10,783	10,783	10,783	8,359	2,424								
KfW: 1st loan	3,040	3,040	3,040	3,040	3,040	3,040	-	5.0	8.0	6(-)	6(-)	1965	243(500)	-	West Germany
2nd loan	2,127	2,119	2,119	2,119	2,119	244	1,875	7.0	9.0	30(10)	15(3)	1973	405(836)	-	Worldwide
Subtotal	5,167	5,159	5,159	5,159	5,159	3,284	1,875								
ADB: 1st loan	8,186	8,152	8,152	8,152	8,152	4,419	3,733	6.875	10.0	15(3)	15(3)	1969	146(300)	73(150)	ADB member countries
2nd loan	8,979	8,966	8,966	8,966	8,966	3,212	5,754	7.5 to 9.1	9.5 to 11.1	15(3)	15(3)	1971	243(500)	73(150)	ADB member countries
3rd loan	17,934	17,727	17,727	17,727	17,727	641	17,086	7.5 to 9.1	9.5 to 11.1	15(3)	15(3)	1973	485(1,000)	146(300)	ADB member countries & Luxemburg
4th loan	15,372	15,372	14,739	14,539	14,195	62	14,133	8.9	10.9	15(3)	15(3)	1976	485(1,000)	243(500)	ADB member countries & Luxemburg
Subtotal	50,471	50,217	49,584	49,384	49,040	8,334	40,706								
EXIM Bank of Japan	12,720	12,715	12,715	12,715	12,715	5,996	6,719	6.25	8.25	13(3)	13(3)	1971	970(2,000)	970(2,000)	Japan
IBRD: 1st loan	17,528	17,528	17,507	17,507	17,050	491	16,559	8.5	10.5	15(3)	15(3)	1975	485(1,000)	243(500)	IBRD member countries & Switzerland
2nd loan	23,519	23,519	21,579	20,789	15,833	-	15,833	7.9	9.9	15(3)	15(3)	1978	728(1,500)	243(500)	IBRD member countries & Switzerland
Subtotal	41,047	41,047	39,086	38,296	32,883	491	32,392								
Korea Foreign Exchange (KFX)	18,646	18,646	18,637	15,913	15,913	177	15,736	LIBOR +	LIBOR + 1.5%	10(4)	10(4)	1977	243(500)	243(500)	Worldwide
<b>Total Foreign Currency Borrowings</b>	<b>142,802</b>	<b>141,971</b>	<b>139,368</b>	<b>135,654</b>	<b>129,897</b>	<b>29,515</b>	<b>100,382</b>								
<b>II. Domestic Currency</b>															
Government of Korea Counterpart Fund						2,419	2			25		1963-75			
Special Account						9,126	13	13.5 to 17%		10	3 & 8 /d	1962-74			
Local Financing Fund						168	11.5 to 15			5		1965-71			
Subtotal						11,713									
National Investment Fund						23,311	13.5 to 15.5	15 to 17%	3 & 8 /d	3 & 8 /d					
Industrial Rationalization Fund						2,915	13.5 to 15.5	15 to 17%	3 & 8 /d	3 & 8 /d					
Deposits (over one-year maturity)						118,196	13.2 to 20.1	15 to 21%	1 to 6	1 to 6					
<b>Total Domestic Currency Borrowings</b>						156,135									

/a Net of cancellations.

/b Figures in parentheses represent grace periods.

/c Figures in parentheses represent US\$ equivalent in thousand at W 485 = US\$1.

/d Three years for working capital loans and eight years for equipment loans.

Note: Won equivalent figures are derived by applying to the disbursed portions the average exchange rates of the Won/foreign currencies actually repayable which prevailed on the latest repayment dates, and by applying to the undisbursed portions an exchange rate of US\$1 = W 485.



KOREA  
THE SMALL AND MEDIUM INDUSTRY BANK

Net Resource Position as of December 31, 1976, 1977 and 1978  
(in W million)

	As of Dec. 31, 1976	As of Dec. 31, 1977	As of Dec. 31, 1978
<b>I. Domestic Currency</b>			
<b>A. Long-Term</b>			
Equity: Paid-in capital	8,060	13,060	20,060
Reserves and retained earnings	4,433	5,196	5,754
<u>Total Equity</u>	<u>12,493</u>	<u>18,256</u>	<u>25,814</u>
Borrowings from Government	10,842	10,766	11,713
Borrowings from NIF and IRF	14,654	16,832	26,226
Savings deposits (over one year)	64,151	82,836	118,196
<u>Total Long-Term Domestic Currency Resources</u>	<u>102,140</u>	<u>128,690</u>	<u>181,949</u>
Less: Domestic currency outstanding term loans	66,829	91,146	128,804
Investment in fixed assets (net)	3,407	5,344	7,799
Other long-term assets /a	8,559	9,553	11,625
BOK's reserve requirement against term deposits	10,906	13,871	21,921
Subtotal	<u>89,701</u>	<u>119,914</u>	<u>170,149</u>
Resources available for further disbursement	12,439	8,776	11,800
Less: Undisbursed commitments	-	-	-
Resources available for further commitment	12,439	8,776	11,800
<b>B. Short-Term</b>			
Demand and savings deposits (less than one year)	138,751	224,341	353,440
Short-term borrowings from BOK	22,050	25,606	20,419
<u>Total Short-Term Domestic Currency Resources</u>	<u>160,801</u>	<u>249,947</u>	<u>373,859</u>
Less: Short-term loans outstanding	124,510	159,412	226,900
BOK's reserve requirement against deposits	28,011	43,049	78,546
Subtotal	<u>152,521</u>	<u>202,461</u>	<u>305,446</u>
Resources available for further commitment	8,280	47,486	68,413
<b>C. Total Domestic Currency Resources</b>			
Total long-term resources	102,140	128,690	181,949
Total short-term resources	160,801	249,947	373,859
<u>Total Resources</u>	<u>262,941</u>	<u>378,637</u>	<u>555,808</u>
Less: Outstanding loans	191,339	250,558	355,704
Investment in property and equipment	3,407	5,344	7,799
BOK's reserve requirement	38,917	56,920	100,467
Other long-term assets	8,559	9,553	11,625
Subtotal	<u>242,222</u>	<u>322,375</u>	<u>475,595</u>
Resources available for further disbursement	20,719	56,262	80,213
Less: Undisbursed loan commitments /b	-	-	-
Resources available for further commitment	20,719	56,262	80,213
<b>II. Foreign Currency /c</b>			
Total foreign currency resources	83,330	93,569	141,971
Less: Foreign currency loans disbursed	56,819	72,918	129,897
Resources available for further disbursement	26,511	20,651	12,074
Less: Undisbursed loan commitments	6,430	12,663	8,114
Net resources available for further commitments	20,081	7,988	3,960
Less: Uncommitted approvals	1,066	3,732	990
Net resources available for approvals	19,015	4,256	2,970

/a Long-term lease deposits, properties acquired through foreclosures and receivables from the sale of such properties.

/b Given the simultaneity of domestic currency operations, there are no uncommitted approvals.

/c On a cumulative basis.

- 72 -

KOREA  
THE SMALL AND MEDIUM INDUSTRY BANK

Projected Operations, 1978-82  
(Won in million)

Years ending December 31,	Actual		1979	1980	1981	1982
	1977	1978				
<u>Approvals</u>						
Foreign currency loans /a (% of total equipment loans)	23,991 (53%)	36,498 (46%)	43,650 (42%)	46,075 (39%)	48,985 (36%)	51,895 (33%)
Domestic currency equipment loans	21,663	42,638	60,000	72,325	87,175	104,705
<u>Total Equipment Loans /b</u> (% of SMI sector)	<u>45,654</u> (26%)	<u>79,136</u> (39%)	<u>103,650</u> (44%)	<u>118,400</u> (44%)	<u>136,160</u> (44%)	<u>156,600</u> (44%)
Working capital loans (net increase) /c	47,791	71,786	128,447	139,132	179,202	229,152
<u>Total Loan Approvals</u>	<u>93,445</u>	<u>150,922</u>	<u>232,097</u>	<u>257,532</u>	<u>315,362</u>	<u>385,752</u>
<u>Commitments</u>						
Foreign currency loans	21,326	39,229	43,456	45,978	48,743	51,653
Domestic currency equipment loans	21,663	42,638	60,000	72,325	87,175	104,705
<u>Total Equipment Loans</u>	<u>42,989</u>	<u>81,867</u>	<u>103,456</u>	<u>118,303</u>	<u>135,918</u>	<u>156,358</u>
Working capital loans (net increase) /c	47,791	71,786	128,447	139,132	179,202	229,152
<u>Total Loan Commitments</u>	<u>90,780</u>	<u>153,653</u>	<u>231,903</u>	<u>257,435</u>	<u>315,120</u>	<u>385,510</u>
<u>Disbursements</u>						
Foreign currency loans	21,618	42,554	43,470	45,348	48,064	50,925
Domestic currency equipment loans	21,663	42,638	60,000	72,325	87,175	104,705
<u>Total Equipment Loans</u>	<u>43,281</u>	<u>85,192</u>	<u>103,470</u>	<u>117,673</u>	<u>135,239</u>	<u>155,630</u>
Working capital loans (net increase) /c	47,791	71,786	128,447	139,132	179,202	229,152
<u>Total Loan Disbursements</u>	<u>91,072</u>	<u>156,978</u>	<u>231,917</u>	<u>256,805</u>	<u>314,441</u>	<u>384,782</u>
Guarantees issued /d	64,328	88,080	108,720	141,330	183,730	238,840

/a Projected to be 42% of total equipment loans in 1979 and thereafter decrease by 3% yearly.

/b Assumed to be 39% of total investment in fixed assets of SMI sector in 1978 and thereafter maintain 44% taking into account SMI promotion fund loans to be newly provided from 1979.

/c On gross basis, working capital loans are projected by applying revolving rates to the average balance for each year; the revolving rates are 10.4 for short-term working capital loans and 0.6 for medium-term working capital loans in 1977. Net increase of working capital loans for each year are as follows:

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Disbursements during the year	2,222,772	3,078,127	4,224,242	5,632,512	7,459,432
Less: Collections during the year	2,150,986	2,949,680	4,085,110	5,453,310	7,230,280
<u>Net Increase</u>	<u>71,786</u>	<u>128,447</u>	<u>139,132</u>	<u>179,202</u>	<u>229,152</u>

/d Annual increase rate of 30% in foreign exchange business is applied in estimating guarantees issued.

KOREA  
THE SMALL AND MEDIUM INDUSTRY BANKProjected Balance Sheets  
(Won in million)

Years ending December 31,	Actual		Projected			
	1977	1978	1979	1980	1981	1982
<b>Assets</b>						
<b>Current Assets</b>						
Cash and bank deposits	129,652	212,421	232,997	296,018	381,559	495,777
Investment in securities	17,387	36,740	52,057	66,547	83,827	104,247
Short-term working capital loans	159,412	226,900	330,590	443,330	590,320	780,980
Other current assets	7,852	8,173	14,261	18,716	24,300	31,360
<b>Total Current Assets</b>	<b>314,303</b>	<b>484,234</b>	<b>629,905</b>	<b>824,611</b>	<b>1,080,006</b>	<b>1,412,364</b>
<b>Term Portfolio</b>						
Working capital loans	46,289	56,194	88,020	114,412	146,624	185,116
Domestic currency equipment loans	44,857	72,610	107,755	153,759	205,006	262,222
Foreign currency loans	58,332	101,163	124,640	158,202	190,460	222,649
<b>Total Term Loans</b>	<b>149,478</b>	<b>229,967</b>	<b>320,415</b>	<b>426,373</b>	<b>542,090</b>	<b>669,987</b>
(Less: provisions)	(794)	(300)	(1,729)	(2,320)	(3,010)	(3,860)
<b>Net Portfolio</b>	<b>148,684</b>	<b>229,667</b>	<b>318,686</b>	<b>424,053</b>	<b>539,080</b>	<b>666,127</b>
Property and equipment (net)	5,344	7,799	14,661	21,125	27,525	33,860
<b>Other Assets</b>						
Long-term lease deposits	5,364	8,990	6,490	7,140	7,850	8,640
Properties acquired through foreclosure	723	126	1,300	1,740	2,270	2,900
Receivable from sale of foreclosed properties	3,466	2,509	5,200	6,960	9,080	11,600
<b>Total Long-Term Assets</b>	<b>163,581</b>	<b>241,292</b>	<b>346,337</b>	<b>461,018</b>	<b>585,805</b>	<b>723,127</b>
<b>Total Assets</b>	<b>477,884</b>	<b>733,325</b>	<b>976,242</b>	<b>1,285,629</b>	<b>1,665,811</b>	<b>2,135,491</b>
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Short-term deposits	224,341	353,440	466,000	601,100	775,400	1,000,200
Borrowings from BOK	25,606	20,419	43,346	66,406	96,386	135,356
Dividend payable	8	7	-	-	-	-
Tax payable	114	71	289	628	1,214	1,924
Due to correspondent banks	10,180	8,294	14,660	17,590	21,110	25,330
Deposits in foreign currency	11,924	40,014	38,712	53,751	67,698	80,330
(of which KFX fund borrowings)	(4,650)	(22,782)	(26,422)	(37,771)	(46,928)	(53,320)
Accrued interest and others	22,757	44,485	43,380	56,850	73,880	95,590
<b>Total Current Liabilities</b>	<b>294,930</b>	<b>466,730</b>	<b>606,387</b>	<b>796,325</b>	<b>1,035,688</b>	<b>1,338,730</b>
<b>Long-Term Liabilities</b>						
Savings deposits	82,836	118,196	172,300	222,300	286,800	370,000
Borrowings from GOK	10,766	11,713	10,272	9,172	8,289	7,163
Borrowings from NIF	13,182	23,311	30,686	41,206	53,156	67,236
Borrowings from IRF	3,650	2,915	1,625	851	373	247
Borrowings from SMIPF	-	-	20,000	45,000	71,700	99,200
Foreign currency borrowings	54,264	84,646	98,800	121,013	144,114	169,911
<b>Total Long-Term Liabilities</b>	<b>164,698</b>	<b>240,781</b>	<b>333,683</b>	<b>439,542</b>	<b>564,432</b>	<b>713,757</b>
<b>Equity</b>						
Paid-in share capital	13,060	20,060	27,060	35,000	40,000	40,000
Reserves and retained earnings	5,196	5,754	9,112	14,762	25,691	43,004
<b>Total Equity</b>	<b>18,256</b>	<b>25,814</b>	<b>36,172</b>	<b>49,762</b>	<b>65,691</b>	<b>83,004</b>
<b>Total Liabilities and Equity</b>	<b>477,884</b>	<b>733,325</b>	<b>976,242</b>	<b>1,285,629</b>	<b>1,665,811</b>	<b>2,135,491</b>
<b>Outstanding Guarantees</b>						
Short-term guarantees	7,436	12,264	12,570	16,340	21,240	27,610
Long-term guarantees	70	162	120	150	200	260
<b>Total Guarantees</b>	<b>7,506</b>	<b>12,426</b>	<b>12,690</b>	<b>16,490</b>	<b>21,440</b>	<b>27,870</b>
<b>Ratios</b>						
Total debt /a /equity	25.2:1	27.4:1	26.0:1	24.8:1	24.4:1	24.7:1
Long-term debt /a /equity	8.3:1	8.5:1	8.3:1	8.0:1	7.7:1	7.7:1
Current ratio	1.07:1	1.09:1	1.04:1	1.04:1	1.04:1	1.06:1
Reserves and provisions as % of portfolio /b	1.9	1.3	1.6	1.9	2.5	3.2

/a Including guarantees.

/b Total portfolio including guarantees.

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Projected Income Statements, 1978-82  
(Won in million)

	Actual					
	1977	1978	1979	1980	1981	1982
<u>Income</u>						
Interest on loans	41,152	56,670	93,219	128,952	170,209	220,834
Interest on deposits and securities	4,433	13,055	9,656	12,771	16,147	20,261
Guarantee fees, commission, etc.	2,147	3,525	4,514	6,049	7,864	10,066
<u>Total Income</u>	<u>47,732</u>	<u>73,250</u>	<u>107,389</u>	<u>147,772</u>	<u>194,220</u>	<u>251,161</u>
<u>Expenses</u>						
Financial expenses	31,423	51,784	76,611	103,882	131,583	164,252
Administrative and general expenses	13,042	19,717	23,769	32,088	43,319	58,481
Provision for doubtful accounts	1,225	(858)	1,729	2,320	3,010	3,860
Other expenses	1,137	1,775	2,391	3,204	4,165	5,331
<u>Total Expenses</u>	<u>46,827</u>	<u>72,418</u>	<u>104,500</u>	<u>141,494</u>	<u>182,077</u>	<u>231,924</u>
Income before tax	905	832	2,889	6,278	12,143	19,237
Income tax	142	110	289	628	1,214	1,924
<u>Net Income</u>	<u>763</u>	<u>722</u>	<u>2,600</u>	<u>5,650</u>	<u>10,929</u>	<u>17,313</u>
<u>Appropriation</u>						
Dividends /a	1	164	-	-	-	-
Reserve and retained earnings	762	558	2,600	5,650	10,929	17,313
<u>Financial Performance</u>						
<u>Percentage of Average Total Assets</u>						
1. Gross income	11.6	12.1	12.9	13.1	13.2	13.2
2. Financial expenses	7.7	8.6	9.2	9.2	8.9	8.6
3. Gross spread (1 - 2)	3.9	3.5	3.7	3.9	4.3	4.6
4. Administrative expenses	3.2	3.3	2.9	2.8	2.9	3.1
5. Provisions	0.3	-	0.2	0.2	0.2	0.2
6. Income tax	0.03	0.02	0.03	0.05	0.08	0.1
7. Net income	0.2	0.1	0.3	0.5	0.7	0.9
<u>Net Profit as % of</u>						
Average equity	5.0	3.3	8.3	13.1	18.9	23.3
Share capital	5.8	3.6	9.6	16.1	27.3	43.3
(Average share capital)	(7.2)	(4.4)	(11.0)	(18.2)	(29.1)	(43.3)
<u>Other Ratios</u>						
Income from loans as % of average loan portfolio	15.2	14.8	17.0	17.0	17.1	17.1
Interest on debts as % of average total debts	8.9	10.1	10.4	10.3	10.0	9.6
Interest spread	6.3	4.7	6.6	6.7	7.1	7.5
Cash dividend as % of par value	-	-	-	-	-	-
Dividend payout ratio	0.1	23	-	-	-	-
Book value as % of par value	139.8	129	133.7	142.2	162.2	207.5
Interest cover ratio /b	1.08	1.04	1.07	1.09	1.12	1.20
Debt service cover ratio /c	1.15	1.13	1.23	1.24	1.26	1.27
Return on average total assets (%) /d	7.9	8.7	9.5	9.1	9.7	9.7

/a The dividend policy was changed by MOF in 1978. For 1979-82 a reversal to the no-dividend policy of 1976/77 is assumed.

/b Net earnings before tax, provisions, interest and depreciation to interest charges.

/c Net income after tax + interest charges + noncash charges + term loan collections to interest charges + repayments of term borrowings (excluding collection of term working capital loans and repayments of savings deposits).

/d Net income before tax + interest charges to average total assets.

KOREA  
THE SMALL AND MEDIUM INDUSTRY BANKProjected Cash Flow Statements, 1978-82  
(Won in million)

	Actual 1978	1979	1980	1981	1982
<b>Sources</b>					
Operations:					
Net Income	722	2,600	5,650	10,929	17,313
Noncash charges (depreciation, provisions)	2,030	2,100	2,756	3,510	4,425
Subtotal	<u>2,752</u>	<u>4,700</u>	<u>8,406</u>	<u>14,439</u>	<u>21,738</u>
Issuance of shares for cash	7,000	7,000	7,940	5,000	-
Drawdown on:					
Foreign currency borrowings /a	29,914	43,470	45,348	48,064	50,925
Government borrowings	3,520	-	-	-	-
BOK	349,803	369,395	582,795	860,220	1,220,854
NIF	12,512	12,000	14,400	17,280	20,740
SMIPF	-	20,000	25,000	30,000	35,000
IRF	488	-	-	-	-
Subtotal	<u>396,237</u>	<u>444,865</u>	<u>667,543</u>	<u>955,564</u>	<u>1,327,519</u>
Collections:					
Foreign currency loans /a	8,280	9,045	11,786	15,806	18,736
Domestic currency equipment loans	14,884	20,588	26,321	35,928	47,489
Working capital loans	2,150,986	2,949,680	4,085,110	5,453,310	7,230,280
(Of which long-term working capital loans)	-	(45,060)	(60,730)	(78,310)	(99,520)
Subtotal	<u>2,174,150</u>	<u>2,979,313</u>	<u>4,123,217</u>	<u>5,505,044</u>	<u>7,296,505</u>
Increase in:					
Long-term (savings) deposits	35,360	48,600	50,000	64,500	83,200
Short-term deposits	129,099	131,400	135,100	174,300	224,800
Deposits in foreign currency /b	-	2,830	3,690	4,790	6,240
Other current liabilities /c	47,889	14,273	16,739	21,136	26,640
Total Sources	<u>2,792,487</u>	<u>3,632,981</u>	<u>5,012,635</u>	<u>6,744,773</u>	<u>8,986,642</u>
<b>Uses</b>					
Additions to fixed assets (gross)	2,769	6,900	6,900	6,900	6,900
Disbursements					
Foreign currency loans /a	42,554	43,470	45,348	48,064	50,925
Domestic currency equipment loans	42,638	60,000	72,325	87,175	104,705
Working capital loans	2,222,772	3,078,127	4,224,242	5,632,512	7,459,432
Subtotal	<u>2,307,964</u>	<u>3,181,597</u>	<u>4,341,915</u>	<u>5,767,751</u>	<u>7,615,062</u>
Repayments of Borrowings					
Foreign currency borrowings /a	8,069	9,045	11,786	15,806	18,736
GOK	2,573	1,362	1,100	883	1,126
BOK	356,876	351,655	559,735	830,240	1,181,884
NIF	2,384	2,600	3,880	5,330	6,660
IRF	1,224	799	774	478	126
SMIPF	-	-	-	3,300	7,500
Subtotal	<u>371,126</u>	<u>365,461</u>	<u>577,275</u>	<u>856,037</u>	<u>1,216,032</u>
Increase in					
Other current assets	2,216	3,705	4,455	5,584	7,060
Short-term investments	19,353	16,160	14,490	17,280	20,420
Cash	82,769	55,421	63,021	85,541	114,218
Subtotal	<u>104,338</u>	<u>75,286</u>	<u>81,966</u>	<u>108,405</u>	<u>141,698</u>
Increase in other long-term assets /d	5,979	2,590	2,850	3,360	3,940
Write-offs	147	1,147	1,729	2,320	3,010
Dividend payments /e	164	-	-	-	-
Total Uses	<u>2,792,487</u>	<u>3,632,981</u>	<u>5,012,635</u>	<u>6,744,773</u>	<u>8,986,642</u>

/a Expected breakdown of foreign currency loans and borrowings:

	Drawdown (disbursements)				Collection (repayment)			
	1979	1980	1981	1982	1979	1980	1981	1982
ADB	19,989	1,940	29,876	6,062	3,958	4,520	5,776	6,484
IBRD	10,920	29,100	3,638	30,313	1,420	1,591	2,856	3,060
AID, KfW, OECF, EXIM	-	-	-	-	2,736	2,716	1,781	1,034
Subtotal	<u>30,909</u>	<u>31,040</u>	<u>33,514</u>	<u>36,375</u>	<u>8,114</u>	<u>8,827</u>	<u>10,413</u>	<u>10,578</u>
KFX Fund	12,561	14,308	14,550	14,550	931	2,959	5,393	8,158
Total	<u>43,470</u>	<u>45,348</u>	<u>48,064</u>	<u>50,925</u>	<u>9,045</u>	<u>11,786</u>	<u>15,806</u>	<u>18,736</u>

/b Exclusive of KFX fund borrowings.

/c Taxes payable, due to correspondent banks, accrued interest and others.

/d Long-term lease deposits, properties acquired through foreclosure, receivable from sale of foreclosed properties and others.

/e The dividend payout policy was changed by MOF in 1978. For 1979-82 a reversal to the 'no-dividend' policy of 1975/77 is assumed.

AEP Projects Department  
April 30, 1979

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Resource Position and Requirements, 1979-82

	1979	1980	1981	1982
<u>Domestic Currency (Won billion)</u>				
<u>Long-Term Resources</u>				
Uncommitted resources	11.8	11.4	15.4	20.8
Cash generated from operations	4.7	8.4	14.4	21.7
Share capital increase	7.0	8.0	5.0	-
Government borrowings	-	-	-	-
National Investment Fund	12.0	14.4	17.3	20.7
SMIPF <u>/a</u>	20.0	25.0	30.0	35.0
Net Won term loan collections <u>/b</u>	15.9	20.5	25.9	32.1
Subtotal	<u>71.4</u>	<u>87.7</u>	<u>108.0</u>	<u>130.3</u>
New commitments of equipment loans	60.0	72.3	87.2	104.7
Uncommitted balance at year-end	11.4	15.4	20.8	25.6
<u>Short-Term Resources</u>				
Uncommitted resources	68.4	79.9	91.3	107.1
Borrowings from BOK (net)	17.1	23.1	30.0	39.0
Net increase in short-term deposits <u>/c</u>	100.1	101.9	130.8	167.8
Net increase in savings deposits <u>/d</u>	22.7	25.5	34.2	46.1
Subtotal	<u>208.3</u>	<u>230.4</u>	<u>286.3</u>	<u>360.0</u>
New commitments of working capital loans	128.4	139.1	179.2	229.1
Uncommitted balance at year-end	79.9	91.3	107.1	130.9
<u>Foreign Currency (US\$ million)</u>				
Uncommitted resources	8.2	46.6	46.8	36.3
IBRD <u>/e</u>	60.0	-	60.0	-
ADB <u>/e</u>	40.0	65.0	-	70.0
KFX	28.0	30.0	30.0	30.0
Subtotal	<u>136.2</u>	<u>141.6</u>	<u>136.8</u>	<u>136.3</u>
New commitments	89.6	94.8	100.5	106.5
Uncommitted balance at year-end	46.6	46.8	36.3	29.8

/a Small and Medium Industry Promotion Fund.

/b Net of repayments of long-term domestic currency borrowings.

/c Net of BOK reserve requirements.

/d Net of BOK reserve requirements and subscription to NIF debentures.

/e Exact dates still flexible.

KOREA

THE SMALL AND MEDIUM INDUSTRY BANK

Estimated Commitment and Disbursement Schedules under  
Proposed Bank Loan /a  
(in US\$ million)

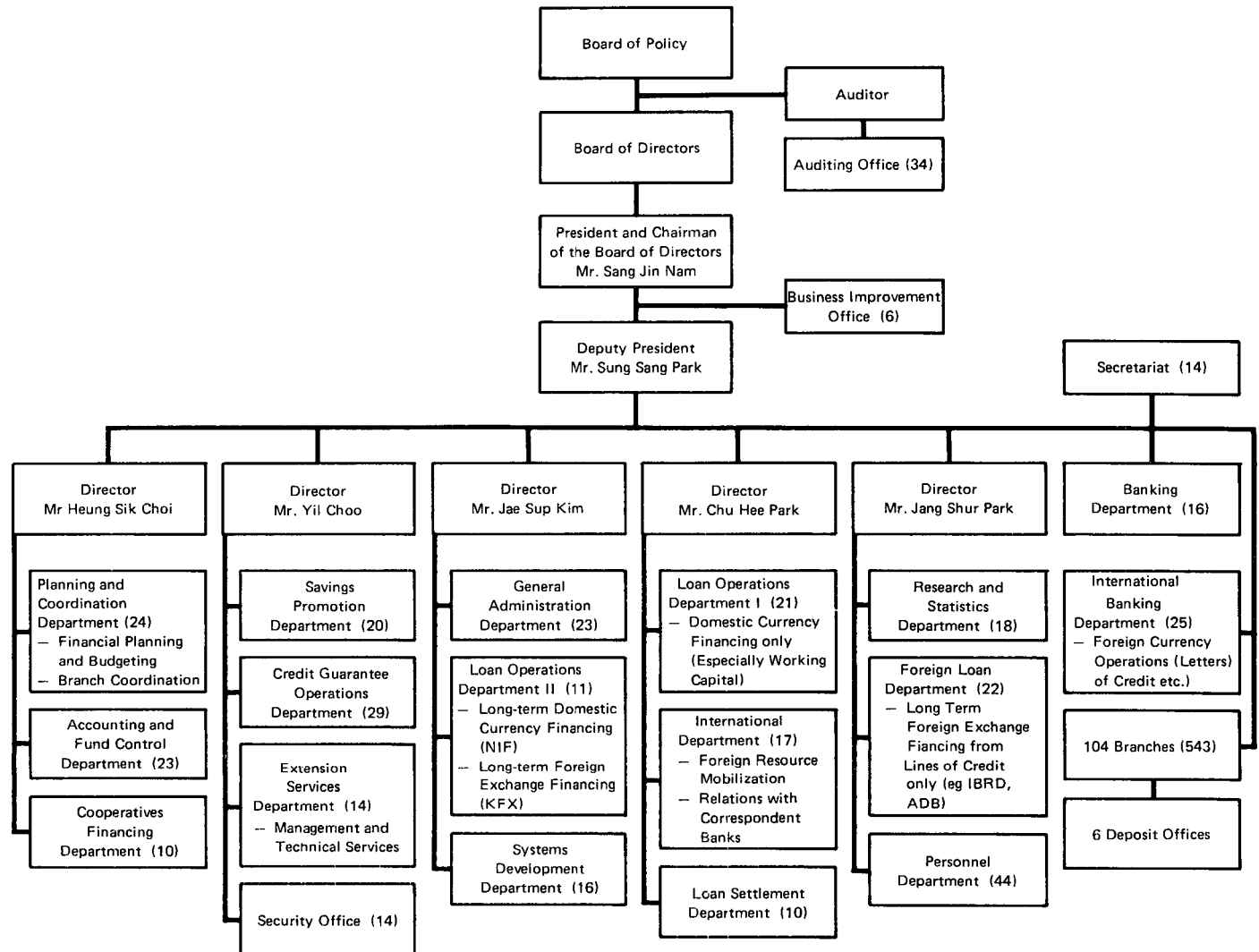
Calendar Year	<u>Commitments</u>		<u>Disbursements</u>	
	<u>Amount</u>	<u>% /b</u>	<u>Amount</u>	<u>% /b</u>
<u>1979</u>				
3rd quarter	-	-	-	-
4th quarter	5.5	9.2	-	-
End-1979	<u>5.5</u>		<u>-</u>	
<u>1980</u>				
1st quarter	7.5	21.7	3.5	5.8
2nd quarter	11.5	40.9	5.7	15.3
3rd quarter	11.5	60.1	8.1	28.8
4th quarter	9.5	75.9	9.6	44.8
End-1980	<u>40.0</u>		<u>26.9</u>	
<u>1981</u>				
1st quarter	7.5	88.4	8.4	58.8
2nd quarter	7.0	100.0	6.9	70.3
3rd quarter	-	-	4.2	77.3
4th quarter	-	-	3.6	83.3
End-1981	<u>14.5</u>		<u>23.1</u>	
<u>1982</u>				
1st quarter	-	-	3.0	88.3
2nd quarter	-	-	2.7	92.8
3rd quarter	-	-	1.8	95.8
4th quarter	-	-	1.5	98.3
End-1982	<u>-</u>		<u>9.5</u>	
<u>1983</u>				
1st quarter	-	-	0.7	99.5
2nd quarter	-	-	0.3	100.0
<u>Total</u>	<u>60.0</u>		<u>60.0</u>	

/a Assuming effectiveness September 1979.

/b Percentages are cumulative.

AEP Projects Department  
April 30, 1979

# KOREA THE SMALL AND MEDIUM INDUSTRY BANK Organization Chart



## Notes

1. Total staff at end-1978, was as follows: Head Office 936; Branches 3,096, Total 4,032.
2. Figures in parentheses indicate the number of professional staff, on a functional classification, per department (Total of 961 at end-1978, including Secretariat and Auditing).
3. Department functions are indicated where title is not self-explanatory.



**KOREA**  
**THE SMALL AND MEDIUM INDUSTRY BANK**  
**Institutional Framework of SMI Assistance**  
**Proposed Under SMI Promotion Act, December 1978**

